

# FINANCIAL TIMES



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World Business Newspaper

TUESDAY FEBRUARY 28 1995

DBS23A

## German lock-out threat hits hope of ending strike

German engineering employers yesterday threatened a lock-out, so dimming hopes for an early end to the sector's first strike since 1984. The 3m-strong IG Metall union, which wants a 6 per cent pay rise, reacted angrily to the threat, with one senior union official warning: "It is coming to lock-outs we will ensure that all hell breaks out in every town in the Federal Republic." Page 18

**Fokker to axe 1,760 jobs in restructuring**

The grim gaze of this Fokker worker (left) reflected employees' gloom yesterday at the news that the Dutch aircraft maker is to axe another 1,760 jobs. The cuts are a fresh attempt to restructure the company, which is controlled by the aerospace arm of Germany's Daimler-Benz group, and return it to profit by 1996. The measures will include shutting components plant near The Hague and relocating Fokker's head office. Page 19

**Salomon takes further charge** The parent of US investment bank Salomon Brothers has taken a further \$51m pre-tax charge against 1994 profits, adding to the \$217m charge for accounting errors disclosed earlier this month. The new charge raises Salomon's 1994 taxable loss to \$331m. Page 19

**Bomb kills scores in Iraq** At least 54 people were killed when a car bomb went off in a crowded street in the Kurdish-controlled Iraqi city of Zakho. As many as 80 more were injured. Page 8

**NSBC Holdings raised 1994 pre-tax profits** by 23 per cent to £3.17bn (\$5bn). Reduced debt provisions more than outweighed a drop in operating income caused largely by lower profits from dealing in interest rate derivatives and securities. Page 19; Lex, Page 25; Midland Bank results, Page 26

**German drugs group launches hostile bid** Pharmaceuticals wholesaler Gehe launched a hostile £377.4m (\$288m) cash bid for UK drugs distributor and retailer, AAL. The 420p a share offer is almost 36 per cent higher than Friday's closing price. Page 19; Lex, Page 18

**UK seeks to cut job protections** The UK government is working behind the scenes with other European Union countries to dilute workers' legal safeguards covered by the EU's acquired rights directive, a confidential letter in the possession of the Financial Times reveals. Page 11

**Claes tells his story** Nato secretary-general Willy Claes, who was Belgium's economic affairs minister in 1980, said the Belgian Socialist allegedly received kickbacks from Italian helicopter company Agusta, made a statement to Belgian authorities investigating the affair. Page 6

**UK criticised over Airbus** Britain's failure to commit itself fully to the Airbus Industrie consortium could lose the UK aerospace sector £17.5bn of business by 2010, says a study. Page 11

**Chechnya "surrounded"** Russia's military command said its forces had completely encircled Grozny and that it would soon rid the Chechen capital of the last separatist rebels. Russian government rebuilding plans for Chechnya were unveiled. Page 18

**Teenager kills sibling** A 17-year-old of Russian origin was accused of shooting dead his parents, grandparents and two family friends at his home in an affluent west Paris suburb. Only the youth's infant sister was spared.

**Pakistan pledges firmness** Pakistan's government pledged to deal harshly with violence and possession of illegal weapons after a weekend in which sectarian violence claimed 20 lives in mosque shootings in Karachi.

**Spanish tobacco profits surge** Tabacalera, Spain's semi state-owned tobacco and foods group, improved net profits by nearly 130 per cent to Ptas11bn (\$96m) in 1994, but the company is braced for a fall in cigarette sales this year.

**Bond out of bankruptcy** Australian businessman Alan Bond was voted out of bankruptcy by creditors, but still faces charges over his 1980s corporate deals. Page 5

STOCK MARKET INDICES			
New York Composite	4,003.32	(-2.42)	
Dow Jones Ind	3,381.0	(-1.57)	
NASDAQ Composite	788.41		
Europe and Far East			
FT-100	3,023.1	(-18.38)	
FT-SE 100	3,023.1	(-18.38)	
Nikkei	10,083.7	(-64.24)	

US LUNCHTIME RATES			
Federal Funds	5.5%		
3-mth Treas Bill	5.84%		
Long Bond	7.61%		
Yield	7.4%		

OTHER RATES			
UK 3-mth Interbank	6.4%	(65%)	
UK 10 y Bond	9.5%	(6.5)	
France 10 y Bond	8.5%	(8.5)	
Germany 10 y Bond	8.0%	(8.0)	
Japan 10 y Bond	5.45%	(5.45)	

NORTH SEA OIL (Argus)			
Brut 15-day (Apr)	\$17.12	(16.91)	
Crude 15-day (Apr)	\$17.12	(16.91)	

## Barings chief hints at conspiracy

By John Gepper and David Wighton in London

Mr Peter Baring, chairman of the failed UK merchant banking group Barings, yesterday said he believed his bank might have fallen victim to a fraud by an employee in Singapore intended to make money by wrecking the bank.

Mr Baring said in an interview with the Financial Times that he believed Mr Nick Leeson, the 28-year-old trader who ran the Barings futures trading operation in Singapore, might have conspired with a unknown partner to bankrupt it.

Mr Baring was speaking after Barings was in effect offered for sale, either as a whole or in parts, by administrators from the UK accountancy firm Ernst & Young. They are seeking to sell its ongoing businesses as quickly as possible after the bank was forced to cease trading on Sunday after the Bank of England failed in efforts to organise a rescue by other banks. The banks were willing to recapitalise Barings at a projected total cost of about \$700m but declined to accept responsibility for the unquantified losses from derivatives trading.

Mr Nigel Hamilton, the lead administrator, said he had been "very encouraged by the interest shown by a number of UK houses" in buying parts of Barings after it sustained a loss from derivatives trades estimated at more than \$900m.

## Singapore trader may have intended to make money out of wrecking UK merchant bank, chairman says

Barings has an outstanding \$70m of futures positions on the Nikkei index, which exposes it to a further loss of \$200m for each fall of 4 per cent in the index. Yesterday, the index dropped 3.8 per cent.

Mr Kenneth Clarke, UK chancellor of the exchequer, yesterday told the House of Commons that an inquiry would be held into the collapse of Barings.

The inquiry will be carried out by the Bank of England's board of banking supervision, and will be chaired by Mr Eddie George, the governor.

An internal inquiry by bank executives, led by its head of

investment banking, Mr Peter Norris, launched last Thursday, had discovered small frauds in its Singapore subsidiary Barings Futures dating back to the start of last year.

Mr Baring said Mr Leeson might have put the bank at risk by building up a position in futures contracts in the Nikkei 225 index which would fall in value if the index fell.

"Let us suppose that the putative associate approached our trader and said, 'You should build up a long position at Barings so great that when Barings discover it they cannot possibly sustain it and remain solvent.'

"I, meanwhile, will build up a short position, and when Barings duly fails I will have a wonderful opportunity to cover my short at a profit," Mr Baring added. He said that this was a "credible" reason for Mr Leeson's behaviour.

Mr Hamilton, the administrator, said Ernst & Young's preferred solution would be to sell Barings in its entirety, but it was willing to sell its parts, including its corporate finance, asset management and securities broking arms separately.

Mr George said Barings' collapse had very little to do with the risks associated with

the banking system as a whole from the collapse of Barings, and it would have been wrong for the government to write a blank cheque. Mr Clarke said in the Commons the government would have refused such a request.

Mr Baring said he did not believe the bank should have used public funds to prop up Barings, which is owned by the family-controlled Baring Foundation. "It was entirely entitled to make its decision on behalf of taxpayers," he said.

Barings and Ernst & Young are thought to be talking to several European banks.

"dreaded derivatives". He said the "rogue trader could equally well have run up very huge losses in cash markets", and the failure was one of controls.

## Relief in markets as share plunge fails to happen

By Philip Coggan and Philip Gawth in London

Traders in world financial markets sighed with relief yesterday as the feared plunge in share prices failed to materialise in the wake of the collapse of Barings, the UK merchant bank.

The worst falls occurred in the Far East, where Barings' Singapore office had incurred the huge losses which led to the bank's demise. In Europe, the main effect was in the foreign exchange markets, where the D-Mark benefited from its status as a "safe haven" at the expense of the pound, the Italian lira and the Spanish peseta, which all fell to historic lows against the German currency.

After initial falls, European stock markets ended only slightly down. Traders took the view that the Barings collapse was an isolated case affecting a medium-size investment bank, which was not large enough to endanger the financial system.

Most attention was focused on the Tokyo stock market, where

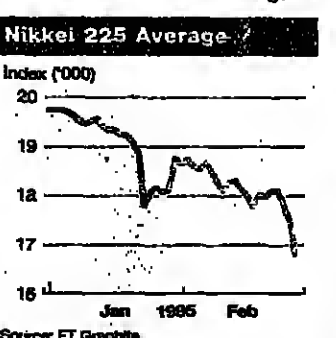
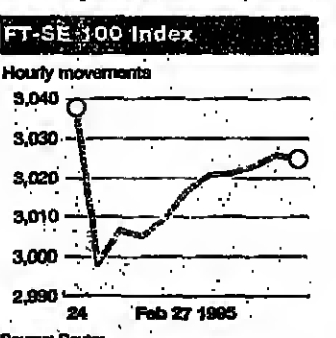
Mr Nick Leeson, a Barings trader, had built up a substantial position speculating on a market rise. The Nikkei 225 index fell 664.24 points, or 3.8 per cent, as investors anticipated the liquidation of Barings contracts. By the close, the Nikkei had slipped to 10,083.7, the first time it had dropped below 17,000 since December 1993.

However, the Nikkei rallied from its worst level of the day, when it fell by nearly 1,000 points, and in London trading, Japanese shares showed a small rise on the Tokyo close.

Other Asian markets also lost ground, affected by Tokyo's fall and by the fact that Barings was a substantial trader in the region. Worst hit were the Philippines, where the Manila composite index fell 4 per cent, and Taiwan, where the weighted index dropped 3 per cent.

In Europe, shares recovered when investors showed little sign of selling. On Wall Street, the Dow Jones Industrial

Continued on Page 18



## Police search for missing trader



Missing: Nick Leeson is thought to have slipped over the border to Malaysia from Singapore using a false passport

### THE BARINGS COLLAPSE

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- ☐ Chairman interviewed
- ☐ Anger among staff
- ☐ Tokyo puzzled by lack of alarm
- ☐ Nick Leeson at centre of the collapse

Tokyo on alert, Page 9; Editorial Comment and Observer, Page 17; Lex, Page 18; London stocks, Page 34; Currencies, Page 32; World stock markets, Page 38

Mr Nick Leeson, the 28-year-old whose trading activities are alleged to have forced Barings into administration, was yesterday being sought by police in the Far East, write William Lewis and Jimmy Burns in London.

Mr Leeson, who was a manager at Barings' futures operation

in Singapore, is thought to have slipped over the border to Malaysia from Singapore, possibly using a false passport.

Last night there were reports he had been spotted in Bangkok, Thailand, although his whereabouts remained unknown.

A Barings official said yesterday

he believed Mr Leeson had been responsible for a fraud against the bank by deliberately concealing information on large losses suffered from dealing in financial derivatives. The Bank of England said the losses suffered

Continued on Page 18

## Hollywood groups want to run China's pirate factories

By Nancy Dunne in Washington

US entertainment companies yesterday indicated that they want to run the pirate factories in southern China which had angered Washington by churning out counterfeit film and music products.

Mr Jack Valenti, president of the US Motion Picture Association, said Hollywood companies were delighted with the week-end's intellectual property pact, under which China has pledged to improve market access for foreign films, books and music.

"Warner, Fox, Universal, Paramount have all expressed interest in various investments," Mr Valenti said. "They all see China as a vast new marketplace."

He said companies were looking for Chinese partners to operate legitimately some of the 28 factories in southern China, which Washington had regarded as a symbol of the rampant violation of copyright in China.

that the Chinese had already closed seven of the factories, and Beijing has promised to shut down others producing counterfeit products. However, Mr Valenti indicated that US companies would even be interested in reopening some of the raided factories.

The trade agreement allows US music, film and computer software companies to create joint ventures with Chinese companies to produce and distribute copies of their products and to share in the profits.

In return, Washington dropped an action that would have imposed 100 per cent tariffs on \$1.08bn worth of imports from China. Beijing had threatened retaliation if the tariffs were introduced.

US entertainment companies already have ambitious plans. Time Warner, for example, considering a project either to refurbish theatres in the 13 largest Chinese cities or build new complexes.

Mr Jay Berman, head of the Recording Industry Association of America, said Chinese industry would benefit from the end of compact disc quotas and restrictions on licensing agreements. "Being in the market is an essential component of any significant long-term commercial relationship, as well as a necessary element of an effective anti-piracy programme," Mr Berman said.

He said the pact "will trigger much greater involvement by US record companies in China, leading in turn to what we expect will be further liberalisation, and the development of a Chinese recording industry, where one currently does not exist."

The Association of American Publishers said if China does enforce its copyright laws, US companies would be interested in co-publishing and licensing deals with Chinese publishers.

A "maturing" marks copyright deal, Page 10  
Editorial Comment, Page 17

## "I need a couple of raincoats cleaned overnight."



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## THE BARINGS CRISIS

## A low-risk business until 'the fraud' says Barings chairman

By Richard Lambert and John Gapper

Speaking in his office yesterday, Mr Peter Baring, chairman of the failed bank, gave his first public account of what had gone wrong.

He explained that Barings' derivative arbitrage operation in Singapore had been very profitable, and added that in terms of its financial exposures it was in principle a low risk business - until what he described as "the fraud" took place.

It was possible to hedge its contracts simultaneously, leaving the bank with a minimum exposure to market movements.

Mr Baring said that the group had been aware of the possible dangers. "We were alert for some time to the fact that the operation was in the hands of a small team, and we knew that the man running it was relatively young. We did in fact exercise a deliberate degree of scrutiny for that reason."

Barings still did not know for sure about the way Mr Leeson had operated. A detailed inquiry was taking place.

However, it appeared that fraudulent activity had been under way on a modest scale since the beginning of 1994.

Mr Baring said that had the audit process of the 1994 figures reached its conclusion, he was confident that this would

have been exposed. But the activities which caused this weekend's crisis took place with frightening speed. Mr Baring said he believed that the vast bulk of the fraudulent activity had taken place in the past few weeks.

"On Wednesday of last week we had a board meeting at which we considered the draft results for 1994. On the basis of these figures we expected to produce results slightly up on the previous year."

But then events started to move rapidly. "On Friday morning, I had an 8am meeting on some other matter. I got a call at 7.15 from Peter Norris (the head of investment banking) saying that we needed to meet because there was a major problem."

"I got in here and foregathered with the executive directors of the holding company. We gathered that our colleagues in Singapore had been working for about 24 hours, having come upon evidence of what happened."

"We satisfied ourselves early on Friday morning that we were able to continue trading through Friday - we took advice on the point. And we worked throughout Friday, Saturday and Sunday to try to produce a solution."

"We realised immediately the scale of the problem and that there were two things we had to achieve. We had to recapitalise the busi-

ness, and we had to find some way to cap the futures exposure."

"We immediately told the Bank of England what had happened. The support we got from them was simply staggering. They showed great vigour, great professionalism, and left no stone unturned in their efforts to help us find a solution."

Barings talked to a number of major banks through the weekend. At least four were actually in its offices, considering the acquisition of all or part of the group.

It also worked with the Bank of England and with Schroders, Barings' advisers, on a plan whereby a consortium of London banks would inject temporary capital into the troubled group, to be replaced after a few months by a permanent solution.

Many parties were willing to acquire Barings, and a banking consortium had also been in place. Mr Baring said. But in both cases, their offers were subject to finding someone willing to provide a cap.

"We were finally unable to complete that second leg. Buyers were now coming forward in large numbers covering substantially the whole of the business. However, some parts would probably not survive."

"As we see it now, I suspect that three units will form themselves - corporate

finance, asset management and our international broking business."

"Those three will be acquired either separately or, conceivably, all together by the same party."

But how could such a crisis have been allowed to build up undetected?

"It's a cliché in our industry to say we are all vulnerable to fraud. It's extremely difficult to impose control systems that are so draconian that people who should have the responsibility to act in a trustworthy fashion should nonetheless have people looking over their shoulders on a minute by minute basis, to make sure they don't conceal the evidence of their transactions."

What could Mr Leeson have had in mind?

"We simply cannot yet know exactly what happened. It is difficult to get a fix on the motivation of this fellow. But we share the view that the creation of a substantial hidden long position was the aim of the operation, by someone who no doubt is out there with a substantial short."

Mr Baring gave a tentative outline of what might have happened.

"Let us suppose the associate approached our trader and said, 'You should build up a hidden long position at Barings so great that when Barings discovers it, it cannot possibly sustain it, and remain solvent."

"I meanwhile will build up a short position, and when Barings duly fails, I will have a wonderful opportunity to cover my short at a profit."

Mr Baring said that this seemed a credible account of events, but the full picture would have to wait on a detailed inquiry. He could throw no light on why the activity had not been detected.

The firm generated very substantial volumes of business in these markets in its normal course of business, which was usually hedged. Did the crisis reveal a fundamental flaw in the derivatives markets?

"What we are talking about here is hiding financial transactions. You don't have to be in the derivative markets to do that. What happened was extremely simple in essence. He bought massive amounts of futures contracts, which he hid. Everybody is vulnerable to that sort of action."

As for the present position, it was too early to say what the creditors' position would be. The fund management side was clearly unaffected.

"We have the normal mix of wholesale deposits and, yes, some of our asset management clients will have deposits with the bank."

Mr Baring went on: "We have two considerations now. We must do everything we can to ensure that the position of our creditors is as well protected as it can be in the cir-



Peter Baring: "We are all vulnerable to fraud"

circumstances. The preferences of people working here is also of critical importance. It is difficult to dispose of this kind of business which consist of a lot of skilled professionals to a party that they don't approve of."

There had been occasions in the past few days when it had seemed possible that Barings might have been saved.

"During Sunday, there were

## ■ MORALE

## 'No one has a clue what is going on'

The idea of "business as usual" cut little ice with staff at Barings yesterday as the news of the bank's problems began to sink in. Reactions ranged from anger to incredulity and even black comedy as shocked employees tried vainly to find out more information.

Staff at Barings Securities had been informed on Sunday night to be in as usual on Monday morning to carry on work. Those arriving at the America Square offices in the City were told to assemble on the trading floor at 10am for an announcement.

At the appointed time, Mr Andrew Fraser, deputy chairman of Barings Securities, walked on to a podium flanked by other senior bosses. "I believe we owe you all an explanation," he began.

But his audience was not impressed by what he heard. He told them that any future buyer would be asked to guarantee bonuses and he asked that everyone continue working properly because potential buyers would want to see that staff had been busy throughout the administration period. He then walked off.

After that, morale just plummeted, said one employee who was at the briefing. However, the mood was relaxed enough in other parts of the office for there to be an opened bottle of wine on the Japanese desk.

A trader working at the Bishopsgate office commented: "When we got in this morning our screens were frozen and we were told that we could not do any business today. That's the last we have heard."

Gallows humour prevailed on the trading floor. "Everyone seems quite relaxed around here. We have been sitting around and almost laughing about it," said one trader with a large cigar in his mouth. "No one has a clue what is happening."

Was he looking for another job? "It has not come to that yet." Other employees claimed to have been inundated with calls from headhunters.

Corporate finance staff were not so light-hearted. "We've been trying to reassure clients on the phone all day," said one.

The feeling was that they would lose some clients that needed to do a transaction immediately but that long standing clients would remain with the firm until the situation was clearer.

In one meeting a director was asked how long the company could keep up the appearance of working as normal. "About two weeks," was the response.

Most employees confessed to being completely ignorant about their future. One Barings Brothers employee was furious by the afternoon. "We have not been told a thing. There have not even been any announcements about announcements," he said.

Annual bonuses dominated the conversation of many employees. Staff at Barings Securities were supposed to be paid their bonuses this week.

Some of the corporate finance department were told on Friday what their bonuses would be and went out for a celebratory lunch only to return to rumours about events in Singapore.

They thought it highly unlikely that they would now see the money.

Staff filing out of Barings Brothers office in Bishopsgate for a lunchtime drink had to negotiate three TV crews. In the foyer a scrum of businessmen waited to get through security.

The research department at Barings Securities was at a standstill. Nearly all the research material is printed in Singapore but DHL has refused to carry the proofs. "All we can really do is twiddle our thumbs and wait for something to happen," said one analyst.

The uncertainty led to two of them almost coming to blows. One said that they should follow the management line, stick together, put their heads down and carry on working, while the other pointed out there was little point since clients were not likely to read their work anyway.

For two executives at Barings Securities there was a sense of déjà vu as they were working for Salomon Brothers at the time of the Treasury bond scandal. "I must be jinxed," said one.

Geoff Dyer  
James Whittington  
Nicholas Denton

## ■ SINGAPORE

## Clearing house funds will meet contract losses

Derivatives-related losses resulting from the collapse of Barings look set to be met from funds held by the clearing houses linked to the exchanges where the contracts were traded, write Richard Lambert and John Gapper in Singapore.

Initial indications are that most of the loss-making contracts were traded on the exchange rather than in the over-the-counter market.

In common with other derivatives exchanges both the Osaka Securities Exchange and the Singapore International Monetary Exchange (Simex) operate clearing funds, financed by contributions from member securities firms and banks. According to Mr Ian McGaw, the author of a recent book on clearing at derivative exchanges, these clearing funds are substantial at both exchanges.

Between 50 and 60 securities firms and banks are members of the Singapore market, while the Osaka exchange has 115 members. The exchanges are also understood to control significant more general reserves, which can also be used to meet short falls.

Officials at the Osaka exchange said yesterday that Barings' debts were likely to be met largely out of money the firm put up as a guarantee. Only after these tranches of protection are exhausted would the exchanges be likely to call on its members to make extra payments.

Calls are regarded as unlikely by specialists at this stage. One consultant said yesterday that the situation faced by both exchanges is different to that which led to the failure in 1987 of the Hong Kong futures and options exchange,

because only one member has defaulted on calls.

"We have had much bigger traumas than this," said the manager of one significant trading operation. "Losses in 1987 were on a much broader international scale."

There is some concern in the industry, however, about the scale of positions which Barings appears to have built up at both Singapore and Osaka. In Osaka alone it accounted for more than 10 per cent of the open interest in the Nikkei 225 futures contracts during some days in February.

In Singapore, many were questioning how such massive dealings, reportedly by one individual, were allowed to escape the Simex surveillance procedures.

"It's very hard to believe that that amount of money could have been traded through Simex without the authorities noticing," said one banker. "There must have been some sort of breakdown in the regulatory framework."

Simex said yesterday that the "open positions of Barings Futures (Singapore) Pte Ltd will be managed by the Exchange pursuant to the rules of the Exchange with the view to an orderly management of the same."

"The Exchange is satisfied that the margins currently held by the Exchange in relation to the open positions is adequate to cover anticipated price fluctuations," it added.

The Simex statement was seen as a clear indication that the Singapore authorities are not going to allow the Barings debacle to bring one of the fastest growing and most successful segments of the island republic's financial services industry to its knees.

## ■ CLIENTS - By Norma Cohen

## Pension funds and charities may lose

Clients of Barings investment Management Ltd - pension funds, charities and wealthy individuals - could face losses from the failure of the Barings group.

Although Barings has reassured clients that their assets are "ring fenced", that is, legally protected against claims of creditors, many clients have chosen to use Barings' own in-house custodian to hold their assets in trust. The custodian, in turn, uses Barings Bank, now in administration, as the depository for all client cash balances.

The clients' claims are then no different from any other depositor, and the clients must stand in line with other Barings creditors.

Yesterday, BIM was trying to

reassure clients and pension consultants that it would do everything it could to see to it that clients, who may include Queen Elizabeth II, have access to cash as quickly as possible.

The extent of the potential losses to clients is uncertain. Barings has about £27bn (\$43bn) in assets under management worldwide. Although it is not clear how much of this is in the form of cash - and only a small percentage will be - the average "balanced" pension fund client will have 5 per cent of all assets in cash.

That means that up to £1.35bn of client monies may be frozen, a portion of which may be lost forever.

However, significant parts of BIM's client base, such as those of the separately capitalised US-based fund manage-

ment subsidiary, use independent consultants and will not be affected. Boston-based Barings Asset Management Inc was not placed in administration and continues to trade.

BIM senior management has told consultants and clients that it is pressing Ernst and Young, administrators to Barings, to award the business to a buyer who will guarantee the payment of cash deposits to clients. "But of course that means a lower price for the administrators and they are in the driver's seat now," one consultant said.

Also, a deal of that nature means the administrators effectively give preference to the claims of one type of bank creditor over the others, something it may not be able to do.

Late last night, administra-

tors for BIM were said to be close to completing arrangements to transfer their custodial business to Barclays.

This will allow BIM to resume buying and selling securities on behalf of clients, and will ensure that cash received from dividend payments on client securities and cash balances from the sale of assets are safe from the claims of creditors.

Meanwhile, several investment banks said they had bid for the asset management business but added that they are not prepared to guarantee payment of client cash deposits.

However, some parts of the fund management business are not in administration and are not affected by the collapse. In addition to the American arm, these include Barings Fund

Managers, which has £12bn in unit trust assets. But trading in the unit trusts was suspended yesterday because administrators were concerned that if clients wished to sell their units, the securities arm of Barings would be unable to find counter-parties willing to pay cash for the sale of the securities.

Uncertainty over trading with Barings has gripped other City firms who are concerned that cash delivered to pay for securities will be claimed by creditors and that promises securities may not be delivered.

Other leading City securities firms said they had appointed "crisis management teams" to sort out the purchases and sales of securities to other parts of the Barings group.

## ■ EXCHANGE FALLOUT - By Philip Gawth

## Ripple effect on currency markets

The foreign exchange fall-out from the Barings debacle has so far been at the level of ripples, rather than waves.

Most obviously, it has exacerbated the flight to quality, under way for some weeks, which has bolstered the strength of the D-Mark.

From the perspective of individual counterparties doing business with Barings, there is little sense of any large losses emanating from foreign exchange exposures.

Barings did much of its foreign exchange business in-house. Banks most likely to have had foreign exchange exposure to Barings would have been its outside custodial banks, the largest being Royal Bank of Scotland. The larger UK clearing banks are also likely to have been involved.

The problem any party to an open foreign exchange position with Barings will have faced is loss of the counterparty. The response will have been to cancel the contract with Barings, by doing the opposite transaction.

Reversing such deals could result in profits or losses for Barings' counterparties, depending on how exchange rates had moved since the contract was struck.

The general industry view was that reversing these transactions ought not to have a significant impact on the profit and loss account of any banks. Spreads on foreign exchange contracts are typically very narrow, and Barings was a comparatively minor presence in foreign exchange markets.

## ■ LOCAL AUTHORITIES - By John Authers

## UK councils expected to avoid BCCI-style disaster

Between 30 and 40 UK local authorities had some form of investment in Barings, local government finance experts estimated yesterday.

But a repeat of the disaster for local authorities created by the collapse of the Bank of Credit and Commerce International seems to have been avoided. The Western Isles unitary council of the coast of Scotland lost £23m in the collapse, having invested £1.5m with BCCI only 15 minutes before the bank was closed down by the Bank of England.

The sum made a serious dent in the council's £96m annual spending and led to interest costs likely to take 30 years to repay. In total, about 40 councils lost about £100m in the affair.

Damage has been less this

time because many authorities had diversified their deposits more widely. Ironically, local authority associations say some councils moved to Barings in a "flight to quality" following BCCI.

Fewtwiss, a district council in Cornwall, south-west England, appeared to be the worst affected by the Barings collapse, with £750,000 invested.

Mrs Jennifer Cross, director of central services with the council, admitted that the authority's short-term investment with the bank, started in December, "does not look very promising".

The authority had had another £1m invested with the bank until last November. However, Fewtwiss changed its investment policy two years ago after the BCCI collapse and

attempted to invest with "quality" institutions. Mrs Cross said: "We have a policy of investing no more than £1m with one institution, to spread and minimise the risk. Barings are an A-rated bank, so you do not expect this. It gets to the point where we are at a loss how better to invest and spread the risk as thinly as possible."

Mrs Cross insisted that any loss would not result in an increase in council tax.

Most authorities were only exposed via their pension funds. Hampshire county council said that about £350m of its pension scheme was invested with Barings, but it was only worried about a slice of uninvested cash, which it said was "likely to be frozen in the accounts of Barings".

## ■ THE BACK OFFICE - By Norma Cohen, Jim Kelly and Maggie Urry

## When things go wrong, the first place to look

When things go wrong at securities firms, they often go wrong in the back office.

While newspaper headlines trumpet triumphs and failures of those who buy and sell securities - the front office - some of the most spectacular losses have involved a failure of the record-keeping system to spot a potential time-bomb and defuse it.

At Barings, a firm more than 230 years old may have been sunk by the inability of those responsible for monitoring the bank's trading activities to spot the activities of Mr Nick Leeson, a 28-year-old trader in Singapore, who took a huge gamble on Nikkei stock index futures. Barings officials have indicated that the dealer may have had assistance in hiding

details of the trades from the bank.

A fundamental weakness in the risk management system was that Mr Leeson was involved both in initiating derivatives contracts and in the settlement process.

City of London operations manager yesterday expressed amazement at his operations: "What I want to know is how he met the margin for those contracts," mused the head of operations at one leading City firm.

Although traders daily "mark to market" the value of trading positions they take on, it is up to the back office to actually make margin payments on those positions and to report on the risks to senior management.

Mr Leeson appears to have misled the Barings management and the Singapore authorities by claiming that his contracts were entered on behalf of existing Barings clients, within agreed credit limits.

The cost of the margin calls was further reduced by his selling over the counter "put" options, rather than calling on Barings to do it. But if so, Barings' back office ought to have been notified by confirmation telexes.

Operations managers at City firms said that if Barings had had effective systems controls in place, a rogue trader would have needed the co-operation of the entire back office in order to hide trading on such a large scale.

And even then, its head office should have realised that something was amiss.

If failure to set effective internal controls proves to have been Barings' downfall, the bank will have good company.

Most recently, Salomon Brothers, the large Wall Street securities house, announced it had uncovered \$350m (£220m) in losses from swaps contracts in earlier years which had been inaccurately recorded. Yesterday it announced that these losses were even bigger than had been previously believed.

Kidder Peabody, one of the oldest names on Wall Street, was burned when Mr Joseph Jett, head of its government bond trading desk, allegedly

manipulated the trading systems to create \$350m of phoney trading profits and thus boost his annual bonus to \$8m in 1993.

The back office was not able to detect the phoney profits because the accounting system recognised a profit on a forward contract on the day it was done rather than when the contract was due to settle.

By repeatedly rolling over the deals the final settlement - when the profits would have been exposed as false - never came. Jett was sacked in April 1994 by which time the scheme had allegedly been operating for nearly three years.

Chase Manhattan bank lost \$117m after tax (\$235m before tax) in May 1992 when it lent bonds to Drysdale Government

Securities, a small firm which defaulted on \$160m of interest payments.

Chase's back office should have realised that it was lending far too much to a small firm with little capital.

The speed and nature of Barings' losses can hardly be laid at the door of its external auditor - the London accountants Coopers & Lybrand.

According to Barings' administrators, Ernst & Young, the 1994 audit was not yet completed when the Singapore trading problem was uncovered last week.

As one leading insolvency expert said yesterday: "This is a case of a 24-hour virus - not the kind of disease which can be caught by an annual check-up."

THE FINANCIAL TIMES  
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 1, 60118 Frankfurt am Main, Germany. Telephone: +49 (0) 69 400 400. Fax: +49 (0) 69 400 440. Telex: 316191. Registered in Frankfurt by J. Walter Brand, Wilhelmstr. 1, 60331 Köln A. Germany. Co-publishers and sole holders of the Financial Times (Europe) GmbH are The Financial Times (Europe) Ltd, London, and F.T. (Germany) Advertising Ltd, London. Shareholder of the above mentioned two companies is The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, GERMANY.  
Responsible for Advertising: Colin A. Kennedy, Printer: DVM Druck-Vertrieb und Marketing GmbH, Adm.-Red.-Verl.-Strasse 33, D-200 Neu-Isenburg (owned by Havest International, ISSN 0171-7325). Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, GERMANY.  
Publishing Director: D. Good, 108 Rue de Rivoli, F-75004 Paris Cedex 01. Telephone: (01) 4297-0621. Fax: (01) 4297-0629. Printer: S.A. Nord Editeur, 1501 Rue de Caude, F-93100 Romainville Cedex 1. Editor: Richard Lambert, ISSN 0171-7325. Commission Paritaire No 0780D.  
SWEDEN: Responsible Publisher: Hugh Carnegie 468 015 0685. Printer: AB Kallhögens Tryckeri, Expressen, PO Box 6007, S-550 06, Gothenburg.  
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THE BARINGS CRISIS

# Lavish Leeson left Watford far behind

By William Lewis and  
Jimmy Burns in London and  
Kieran Cooke in Singapore

Mr Nick Leeson, the futures trader at the centre of the Barings collapse, had an extremely unimpressive Saturday, the day he turned 28. As the first news of the Barings collapse began to break, Mr Leeson, with his wife, was thought to be already on the run from Malaysian police after apparently slipping over the border from Singapore, possibly using a false passport. Last night there were reports that he had been spotted in Bangkok, the capital of Thailand.

In the far East, Mr Leeson earned millions as a trader, buying himself a luxury apartment, and reportedly a yacht which he kept moored off the Malaysian coast.

Such a lifestyle was a world removed from the modest hatched ground of the plasterer's son, born in Watford, Hertfordshire.

In Singapore, where Mr Leeson worked as a manager of Barings Futures, he was known as something of a miracle man among the circle of traders at the Singapore International Monetary Exchange (Simex).

"He was a kingpin here," said one

expatriate trader yesterday. "Full of self confidence, he had a big reputation - people felt he could always pull off the big deal."

Among the 130 staff at Barings' office in Singapore, the majority of them locals, Mr Leeson was regarded as a strong character who tended to keep himself to himself.

But outside work he was known as one of the expatriate lads - a social high flyer who held lavish parties and frequently went drinking round Singapore's fashionable riverside bars.

In the Orchard Road neighbourhood where Leeson lived, four days of unread newspapers were piled up on the doorstep of the plush condominium he had shared with his wife. "They are a nice young couple. I'd see them coming in and out," said a neighbour.

On the trading floor, too, his reputation was as a friendly, if arrogant, man-about-town who mixed mostly with expatriates.

"The impression I, like many others, received was that he was a thoroughly likeable bloke. He had a North London accent and is forthright in his views," said a fellow trader.

Mr Leeson had been at Barings in Singapore for three years. Fellow

**'He was a kingpin here. Full of self confidence, he had a big reputation. People felt he could always pull off the big deal.'**

An expatriate trader  
Singapore

traders say he earned about \$300,000 (£190,000) a year, although this excluded hefty bonuses and commissions. One dealer said that Leeson's bonuses on his derivatives trading last year could have exceeded \$2m.

In Watford, neighbours and relatives reached with surprise to the attention suddenly focused on a person whose work few of them could understand, but who was warmly remembered as a "nice bright boy". Mr Leeson's former school teacher described him as a "good chap" who had a "very supportive family".

Mr Alan Francis, a teacher at Parmiters Comprehensive in Watford, said that Mr Leeson had left school after taking three A' levels, including maths in which he got the lowest grade, F.

Mr Leeson has two sisters and one brother, both younger than him, and is, according to Mr Francis, a keen football player. During his time in the sixth form at school, Mr Leeson's mother died, but he was "very strong about it", Mr Francis said.

Yesterday the family home, a three-bedroomed end terrace house at Baines Way in Leavenworth, Watford, appeared empty, with neighbours saying they believed Mr Leeson's father, William, had gone to stay "up North".

After leaving school, aged 18, Nick Leeson joined Conitts & Co, the private bank, where he worked for two years in "general clerical duties", according to a spokeswoman.

Records show that two county court judgments were passed against

him, one in February 1991 and the other in May 1992, for approximately \$2,000.

Mr Leeson, in an interview in Singapore early last week, said he was "heavily involved" in arbitrage trading of futures on the Nikkei index on the Osaka exchange and on Simex.

He said he had been buying the contracts on Simex and selling in Osaka, taking advantage of price differentials between the two markets. Barings yesterday claimed that their detailed knowledge of Mr Leeson was "surprisingly thin" - a measure perhaps of a lack of checks and balances in a profession where individuals are given considerable freedom of action with which to make and break deals.

As one banker put it: "The thing about derivatives is that it is so complex only the people actually doing it understand it and that is why they can get away with cheating on their employers."

A bank insider said that Mr Leeson had followed a "normal career path" for a trader with limited educational qualifications. "Traders can do a lot of things once you hire them. You just hope they are honest," she said.

According to a Barings spokes-

man, he joined Barings Securities in July 1989 as a settlements clerk and was transferred to Singapore in the same position in April 1992.

Mr Leeson married Lisa Sims, now 23, in March 1992 at St Edmund the King church in West Kingsdown, Kent.

Yesterday Mr Alex Sims, Lisa's father, said that he was concerned about his daughter and Mr Leeson. "I am very, very concerned for his well-being now, as well as Lisa's," he said. "He is not the sort who would do anything silly, but I don't know why they haven't got in touch. I just wish they would call to tell me they are safe."

"He doesn't have any hobbies as such, he is dedicated to his work. I don't believe for a moment he is the only one involved in this," he said. "It seems he is being made some sort of scapegoat and having everything on him."

But among Mr Leeson's colleagues at Barings, any grudging respect for the man appears to have evaporated in the aftermath of the collapse, and been replaced by anger.

"I hope he is arrested in Singapore and brought to trial there. It will mean a quicker and harder sentence than if he is brought back to the UK," said one colleague.

■ BRIEFLY

## Future of new City offices in doubt

Uncertainty surrounds the future of 60 London Wall, the City of London office block which was to house Barings' investment banking operations from September. Barings Brothers signed a 25-year lease on 230,000 sq ft of space in November, the largest City letting for three years. The firm planned to bring its investment banking operations under one roof. Work on fitting out the offices has already started. Scottish Widows, the life insurer, owns the building.

Simon Landon

## US and Mexican arms still trading

US and Latin American subsidiaries of Barings were open for business and continuing operations yesterday in spite of the collapse of their parent company. A spokeswoman said Barings Securities Inc, was separately capitalised and had assets in excess of requirements made by the US securities and exchange commission and the New York Stock Exchange. Barings Casa de Bolsa, the Mexican subsidiary of Barings Securities and the group's only broker-dealer was also operating as usual, she said.

Lisa Branstetter

## Hong Kong side under restrictions

Hong Kong authorities will allow some of Barings' earning companies in the colony to continue trading but only on a restricted basis and under close supervision. Barings Brothers & Co, the UK merchant bank's bank in the colony, would be permitted to provide corporate finance services so long as it does not incur any further financial exposure, except overheads.

Mr Anthony Neoh, chairman, Securities and Futures Commission, said the fued management business would be allowed to operate so long as no client money is used. Barings Futures and Barings Securities would both be permitted to settle all outstanding trades in an orderly manner before ceasing trading altogether. Neither is permitted to take on new business.

Simon Holberton

## Abbey National's venture proceeds

Abbey National, the home loans and banking group, is poised to take over the management of its joint venture with Barings - Abbey National Barings Derivatives. The wholly-owned subsidiary of Abbey's treasury operations is continuing to operate out of Barings' Bishopsgate offices.

The 30 or so of the 45 staff who are currently on Barings contracts are likely to be offered Abbey National contracts over the next couple of weeks, and the group is considering a name change for the venture. "You could argue that the words 'Barings' and 'Derivative' do not go too well together at the moment," Abbey said yesterday, "but it is a good business and we have confidence in it."

Alison Smith

## Insurance chief warns on controls

Mr Richard Regan, head of investment affairs at the Association of British Insurers, said he believed the Barings collapse was "a one-off which would appear to have been caused by the failure of internal controls". He warned against a hasty rush towards the tougher regulation of derivatives.

Ralph Atkins

## Finance union calls for review

Bift, the finance union, urged banks and other financial institutions to review their procedures in light of the Barings collapse. Mr Leif Mills, general secretary, said: "Banks have got to look at how reliant they are on the proceeds of short-term speculation in currency or commodity movements. It's nothing more than respectable gambling."

"They also have to change the whole hire-and-fire climate in which relatively young dealers take on huge responsibilities under great pressure. They have to create a new climate in which mistakes can be admitted promptly and dealt with before irreparable damage is done."

Andrew Bolger

■ DERIVATIVES

## Ministry: no need for new regulation

Japan is not planning to clamp down further on its already heavily regulated derivatives market as a result of the Barings crisis, a senior Tokyo finance ministry official said yesterday. William Dawkins in Tokyo writes. But the emergence of Barings' huge loss on equity index futures did underline the need for better in-house controls by securities companies, he said. "It is not a market problem," he said. "It is up to individual securities companies to set up the disciplines to assure sound management."

The finance ministry had no contact with Barings until receiving the news of the crisis via the Bank of Japan on Saturday, he said. A Bank of England official arrived in Tokyo shortly afterwards and remains there to keep Japanese regulators informed.

Yet equity traders in Tokyo yesterday cast doubt on how regulators, whether Japanese or British, could have been kept in the dark until so recently. Barings' exposure, betting on a rise in the index, was noticeably out of line with most other investors, who were betting on a fall, they said. Other traders had believed that Barings was investing on behalf of a client, rather than on its own account.

The ministry's initial reaction runs counter to the regulatory backlash widely expected by securities company executives in Tokyo. However, pressure for tougher company scrutiny, within existing market rules, has started to build up.

Mr Mitsuhide Yamaguchi, president of the Tokyo Stock Exchange, said the exchange would keep a close eye on all stock and bond transactions. The TSE and the finance ministry's securities bureau were considering joint action to prevent "market turmoil", raising the likelihood of a return to the government practice of supporting the market by encouraging Japanese financial institutions to hold shares.

■ JAPAN'S PUZZLEMENT

By Gerard Baker and Emiko Terazono

## Everyone knew of the trades but no one understood them

While the Japanese stock market was plunging yesterday in the wake of the demise of Barings, the overwhelming sentiment in Tokyo's financial markets was one of puzzlement. Brokers and bankers expressed bewilderment that the widely-publicised risky positions Barings had taken had not alerted the authorities sooner to the potential threat they posed to the bank's very existence.

That someone at Barings was piling up Nikkei 225 futures contracts became public knowledge in the course of the last month. The Osaka Securities Exchange publishes a weekly table of brokers in Japan with the largest exposures in the futures market.

"It ranks institutions by the size of their long and short positions, i.e. those with large net holdings of contracts to buy or sell the various futures' indices."

In the space of a few weeks, Barings' holdings of long - buy - contracts on the Nikkei 225 rose dramatically. In the first week of January Barings had 3,024 net outstanding long contracts, the largest of all brokers on the Osaka exchange, but by no means an unusual figure.

But towards the end of the

month the total rose sharply, reaching 15,852 by January 27. After a slight fall in early February, it climbed again, to reach a remarkable 20,076 by the middle of the month.

This total is one of the largest recorded by the exchange in recent years. It was almost eight times the level of the next largest broker's holdings, the French company, Paribas Capital Markets, and it represented an increase of almost 600 per cent in a little over a month.

These figures are truly exceptional. According to futures brokers in Tokyo, Japan's "Big Four" stockbrokers, companies that have shareholders' equity of up to ¥1,750bn, (\$11.4bn) rarely hold more than about 6,000 long contracts. If each contract was worth about ¥1.6m, it meant the total value of the contracts underlying the exposure was more than ¥30bn.

At the same time the bank was building similar positions on the Singapore International Monetary Exchange (Simex), though the scale of these operations was not disclosed.

"No one could quite understand what Barings were doing with that sort of position," said one futures trader. There were plenty of guesses.

The consensus was that the contracts had been bought on behalf of a client, and did not, therefore, threaten the bank's own capital. "It never entered anyone's head that these contracts might be proprietary for trading on the bank's own account," said another broker.

It was also wrongly assumed that Barings had protected its exposure by hedging, or balancing the contracts with sell orders in the cash or futures markets, to limit the eventual cost. "Everyone has known about Barings' trades for a month or so, but we never thought the positions would be unhedged," said Mr Yasuo Ueki at Nikko Securities.

Some analysts actually believe the Barings position was so large that it was the only thing that kept the stock market as a whole from falling sharply in the face of strong selling pressure from investors in the last month.

Brokers referred extensively in the weeks before the Barings collapse to the unusually large amounts of buying in the futures market as a key support factor. Mr Jason James, equity strategist at James Capel Pacific recalled yesterday, "For some time it was evident that some unknown buyer was in the market. Now we

know who it was."

Such a large exposure does not, of course, constitute a threat in itself to a bank's viability. One financial regulator in Tokyo yesterday said, "While it may be unusual for such a large liability to arise so quickly it does not necessarily represent a risk to the bank. If the bank thought it was acting on behalf of a client, and if they were hedging it at the same time, then the risk would be small."

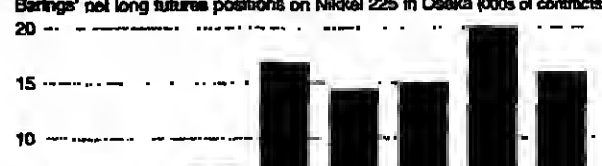
Officials at Barings in Tokyo indicated yesterday that while they acknowledged the exposure was widely known, they did not regard it as unduly risky. "We weren't given details but we knew all about these positions," said one analyst at the bank.

Yet the scale of the contracts, and the way in which they accumulated so rapidly, should still have alerted the regulators in the various markets. In normal circumstances the authorities would be keenly interested in the growth of such liabilities, even if they were not considered a direct risk to the bank's capital.

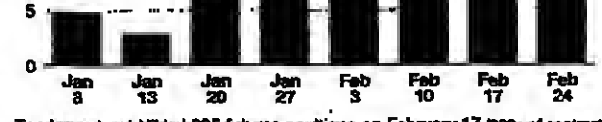
Some traders thought it unlikely that the Finance Ministry, which regulates the financial system with especially intimate scrutiny, would

Fatal exposure

Barings' net long futures positions on Nikkei 225 in Osaka (000s of contracts)



Ten largest net Nikkei 225 futures positions on February 17 (000s of contracts)



Source: Osaka Securities Exchange

not have taken an interest in Barings' growing exposure.

Ministry officials would only comment yesterday that they were examining in detail the sudden growth of Barings' liabilities.

The Japanese regulatory framework is often criticised for its failure to disclose vital information about financial companies.

But on this occasion there can be no criticism of the system's openness. But that very openness raises important questions about the bank's risk-taking and about the role of the regulators in Japan and

around the world.

The inquiry that seems certain to follow will focus on several central questions:

Was the exposure hedged, or balanced by an offsetting "sell" position in another market? What did Barings management know about the nature of the contracts and who did they think was the end-client?

What did the authorities in Singapore and Japan know about the details of these contracts? What did they tell the Bank of England, the regulator ultimately responsible for supervising the bank and acting as its lender of last resort?

■ FINANCIAL FUTURES

By Gerard Baker

## Futures exchanges may have to raise their fees

The debacle at Barings has focused attention on the world's financial futures exchanges, where the company's massive losses occurred.

These markets trade hundreds of billions of dollars' worth of financial derivatives every day, and Barings' losses represent a potentially damaging blow to their reputation and to their financial strength.

Most forms of futures contract are deals made between a broker, on behalf of a client, and the exchange itself. If a broker is unable to meet the costs of its contract, as is apparently

the case with Barings, it is the exchange that must bear the loss, in this case the Singapore International Monetary Exchange (Simex) and the Osaka Securities Exchange.

In order to protect themselves from the potentially ruinous effects of such losses, exchanges require brokers to put up a proportion of the value of the contract as "margin".

In Osaka that figure is about 9 per cent of the total value, while in Singapore it is around 1 per cent.

In normal circumstances the margin is sufficient to meet most putative

losses on contracts, and the exchanges' financial position is not adversely affected.

Simex officials yesterday said that it had sufficient funds to meet any liabilities that might arise from the non-performance of Barings' contracts. Osaka officials also indicated that they would be able to provide the necessary funds.

But that could be at a price. Barings' losses are potentially larger than the margin figure on both exchanges. And the company reportedly failed to meet a margin call last week on its

most recently bought contracts as its losses deepened.

These two factors could leave the authorities facing a deficit on the contracts themselves.

"It is quite likely that the exchanges will not have sufficient funds to meet the losses from Barings when they fall due," said one broker in Tokyo yesterday. Though they have guaranteed they will foot the bill, they may have to resort to special measures to replenish their coffers.

Simex reported yesterday that it

would raise the costs of margins. That is likely to dampen further trading in an already cautious market.

Both exchanges may also have to consider raising extra capital to insure against such big losses in future.

"That might mean raising the fees they charge brokers."

The implications are likely to be global. Financial futures markets around the world will be reviewing the strength of their own capital and looking again at the liabilities of the brokers who trade with them.

■ THE FAMILY

By Peter March

## Lord Howick: 'not an inkling'

Sadness and shock were in evidence yesterday among the several hundred members of the Baring family, one of Britain's oldest and most influential business dynasties.

Lord Howick, a leading scion and a former managing director of Barings Brothers, probably summed up the feelings of most of the family. "It's come completely out of the blue; we didn't have an inkling this was about to happen," he said from his home in Alnwick, Northumberland.

Lord Howick, a great great grandson of the bank's founder and a director of the Baring Foundation, the charitable trust which owns the bank, said he knew little of the circumstances behind the bank's downfall. "But I'm quite sure it was an aberration," he said.

Equally dismayed was Mr Julian Baring, a director at Warburg Asset Management, part of S.G. Warburg Securities, another leading family member. "I don't want to talk about what's happened; it's a very difficult time," said Mr Baring, while another family

member said simply: "I'm devastated." Today's Barings are part of the five family groups into which the Baring dynasty split during the 18th century, and all of whom can trace their descent to Francis Baring, who started the bank in 1762.

For their part in helping to provide the financial base for developing the British empire, the five family groups were each rewarded by the British government during the 1800s and early 1900s with hereditary titles. Their names live on today: Ashburton, Cromer, Howick of Glendale, Northbrook and Revelstoke.

It was Baring cash that helped British companies to build up trade with India and other parts of eastern Asia - a link which is ironic given the Singapore base for the financial dealmaking which led to the bank's demise.

Baring also prospered handsomely from bankrolling British military exploits overseas, for example in the war of American independence.

Reflecting the family's status, the Baring name crops up

among the list of the great and good which has served the British establishment for more than two centuries.

The first Lord Ashburton - whose family motto is "Fortitude under difficulties" - was the president of Britain's board of trade and master of the mint in charge of coin making. The first Lord Cromer - family motto "By probity and industry" - was the comptroller general of Egypt.

While the father of the current Lord Cromer was a former governor of the Bank of England, the third Lord Northbrook was a chancellor of the Exchequer. It is often regarded as the most talented Baring, the calmest was probably the third Lord Revelstoke, managing director of the bank between 1911 and 1934, and who survived several early 20th century banking crises by sitting at his desk and reading Homer.

Once when in Madrid negotiating an important loan, Lord Revelstoke, a keen naturalist, is said to have sent back to

London an urgent cable requesting not financial details but the whereabouts of some nesting birds.

Today the family rarely meets as a unit. "We are too widely spread; there are so many cousins it's difficult to keep track of them," said one family member. The unofficial family head is the seventh Lord Ashburton, chairman of Barings between 1985 and 1989 and the current chairman of British Petroleum.

Lord Ashburton is on friendly terms with the Queen and also a past business confidante of former prime minister Baroness Thatcher. Mr Peter Baring, the Baring chairman, is part of the Revelstoke branch of the family, while his brother Nicholas is chairman of insurance company Commercial Union.

Yesterday Nicholas was not taking any calls from outsiders at his company's London headquarters, a sign that one of Britain's most distinguished dynasties was preferring to conduct its mourning in private.

■ THE FOUNDATION

By Simon Kuper and Andrew Adonis

## Income plummets but grants to be honoured

The Baring Foundation, the UK's ninth largest grant-making trust, expects its annual income to fall from £14m to just over £2m because of the bank's collapse.

Most of the assets of the charity, which is a prominent grant-giving trust tied to a single charitable sector, are held in Barings shares. Only about £50m of the foundation's £250m assets were in other investments at the beginning of 1994, the latest figures available.

Mr David Carrington, director of the foundation, said: "We're all devastated. Last week we were a significant grant making trust. It's a fairly big turnaround." The foundation made grants totalling £13.7m last year, the bulk of them to social welfare groups. The trust would honour its outstanding commitments, Mr Carrington said. It did not expect to have to erode

its remaining capital to do so.

The collapse will be a blow to parts of the charity sector. The foundation's grants last year ranged from £100 to £200,000 to the King's Fund, the health policy institute. The Housing Association's Charitable Trust, helping the homeless, received £375,000.

Most of its grants were small, as the foundation sought to aid as many bodies as possible - 750 last year. Barings has a reputation for funding projects in London, Merseyside and the North East, each of which received 10 per cent of total funding.

Recipients included the Liverpool Philharmonic Orchestra, the British Museum, the Samaritans, The Mines Advisory Group, Oxfam, other international agencies working in Africa and South America, and many local voluntary organisations. Groups working in South Africa

received £500,000 last year. Mr Carrington said: "There are a lot of charities for whom we have become a regular source of income."

Mr Nigel Siederer, director of the Association of Charitable Foundations, said the collapse of Barings was "serious but not critical" in the context of a total of £1bn in charitable grants this year.

Ms Ruth McLeod, director of Homeless International, a housing charity, said: "The foundation's trouble potentially removes a source of funding for innovative projects that other people won't finance."

The foundation, set up in 1969, owns all Barings' ordinary non-voting shares. Last year it received £8m gross in donations from the bank, £5m in dividend income from its Barings shares and a further £300,000 in tax relief on the dividend income.



## THE BARINGS CRISIS

## Dealmakers seek a buyer for themselves

By Nicholas Denton

National Westminster Bank, Barclays and HSBC, owners of three leading UK clearing banks, and ABN Amro of the Netherlands, are leading contenders to buy Baring Brothers' corporate finance arm.

Several US investment banks have also expressed interest but corporate finance executives feel a transatlantic tie-up would compromise Baring's relationship with Dillon Read, which they wish to preserve. The corporate finance team's talks are part of a frantic search by Baring group companies and their administrators Ernst & Young for buyers for the bank's businesses.

The administrators said they preferred to sell Barings as an intact

unit. But a Baring executive said the group was open to a sale of the three main subsidiaries separately or together. Each of the three, Baring Brothers, Baring Securities and Baring Asset Management, is also engaged in separate conversations with potential acquirers.

The administrators are also preparing to divorce the assets from the liabilities due to the derivatives trading in East Asia.

The corporate finance department, which has recently enjoyed a surge of business, is believed to have offers from UK clearing banks and many others. It did not want to give the impression that it was looking first of all for its own solution. But Mr Nicholas Gold, a director of Baring Brothers, said the corporate finance

unit. But a Baring executive said the group was open to a sale of the three main subsidiaries separately or together. Each of the three, Baring Brothers, Baring Securities and Baring Asset Management, is also engaged in separate conversations with potential acquirers.

The potential buyers do not necessarily include the roughly dozen UK institutions which sought to form a consortium to rescue Baring. But four unnamed banks engaged in negotiations at the weekend to buy Baring businesses before it went bust. They remain interested. Others approached the corporate finance and securities arms yesterday.

ABN Amro, which plans to expand in East Asia and capital markets activities, said: "If there are parts of Barings for sale we, in principle, are interested."

ING Bank, another Dutch bank, did not comment but it is understood to have been in discussions with the Bank of England and Barings over the weekend. The bank, which is strong in eastern Europe, Latin America and Asia, is believed to feel that some elements of Barings, particularly Baring Securities and its emerging markets operations, would fit very well.

Swiss Bank Corporation was also in talks with Baring. Mr Rudi Boggi went to Baring's offices at 6 Bishopsgate yesterday. But it is not clear whether the talks were to do with acquisitions or Baring's positions in derivatives, a financial product in which SBC is a market leader.

Barclays and NatWest have also been in discussions with parts of

Barings. Barclays did not comment but its executives took a prominent role in the weekend discussions. BZW is growing rapidly and Baring Brothers' list of clients would strengthen its corporate finance arm, which is not as strong as its securities operation.

Deutsche Bank and Dresdner Bank, the biggest German commercial banks, are building up investment banking in London. Mr John Craven, chairman of Morgan Grenfell, Deutsche's investment banking subsidiary, was present at the weekend talks. Dresdner Bank was not invited but said yesterday: "We are watching the scene that is playing out with great attention."

Most large US houses indicated they had no current plans to acquire

parts of Baring. But Merrill Lynch, which is building up its mergers and acquisitions operation in Europe, did not comment and it is believed to have expressed interest. Private individuals in the Middle East and Far East have also made inquiries. Time is the great pressure. One executive at a subsidiary said: "We have days or at most weeks to find a suitor."

The danger for Baring Securities is that the staff at some of its 24 offices will effectively declare independence. It was engaged yesterday in a massive telephoning operation, not only to clients, but to employees. Potential buyers are also aware of the ticking clock. ABN Amro said: "Baring today is not the same as Baring yesterday. The assets are falling in value as we speak."

## ■ ASSET MGT

£600m

## may be bid in break-up

It has been fashionable among investment banks to build up their asset management arms in recent years and Barings has been no exception, writes Norman Cohen, Investments Correspondent.

Thus, it should come as no surprise that a number of bidders seeking to buy the asset management business on its own have come forward in recent days. Competitors have said the administrators could realistically expect to receive £400m to £500m for the sale of the asset management arm alone, depending on the conditions of sale.

Indeed, investment consultants say, it has been more successful than most and has been unusual in its ability to build a broad international portfolio of clients which makes its asset management business one of the most desirable in Europe. About a third of its assets are those of non-UK clients.

"They have a very good mix of business world wide and the UK has not been their greatest strength," said one consultant. However, their expertise in foreign markets, particularly in emerging markets has bolstered their ability to attract assets from US pension funds which are rapidly expanding their non-domestic investments.

The question is whether the collapse of the Barings group will undermine the loyalty of existing clients and cause them to desert a fund manager widely viewed by consultants as one of the half-dozen top firms in the business.

Moreover, Barings has reorganised its business internally in a move which consultants say should make it more responsive to clients. At the end of 1993, it began to appoint client service managers to "handhold" thus giving its fund managers more time to just pick stocks. Along with that change, it has become more aggressive about the tilt it has given to its portfolios.

"They are trying to get away from the 'Barings' is balanced and boring" label, said one consultant.

However, their aggressive stance harmed their performance badly in 1994, after a year of outperformance in 1993. Consultants say that while almost all UK fund managers produced negative returns in 1994, Barings' average return was a negative 7.3 percent, against an industry median of negative 4.5 percent.

Baring Investment Management has roughly £27bn in assets under management, and a broad mix of institutional, private client and retail funds based around the world. According to a study released last summer by InterSec, a US-based pension fund consulting firm, BIM was the 59th largest fund manager outside the US.

## ■ CORPORATE CLIENTS - By Nicholas Denton

## Wait-and-see approach on advice switch

Corporate clients of Baring Brothers, the group's merchant banking arm, are taking a wait-and-see approach. They have been supportive without ruling out a change of advisers.

The company on Barings' list most affected by the crisis is Wellcome, which is fighting a hostile bid from rival drugs company Glaxo.

Mr John Robb, Wellcome chairman, said he was perfectly satisfied that Barings would continue to play a full part in helping secure a higher offer.

The company complimented the skills of the team of 10 Baring corporate financiers headed by Mr Nicholas Gold and Mr James Lupton.

Wellcome believes it can insulate the team from the turmoil at their employer. The advisers are working out of Wellcome's offices. "We have been camped out at Wellcome since January 24," said Mr Lupton.

Lloyds Bank, another Barings' client, is in the closing phase of its acquisition of Cheltenham & Gloucester Building Society. It said it had every confidence in Barings' corporate finance team, headed by Mr Matthew Greenburgh. In any case, Lloyds said, there was little work for advisers in the run-up to the extraordinary general meeting in March to consider the proposals.

Barings Brothers has about 70 quoted clients in the UK, including joint adviserships. Among them are 3i Group, Allied Domecq, Coats Visteal, Johnson Matthey, Midlands Electricity, Scottish Power, W. H. Smith, Whitbread and Yorkshire Water.

Other companies have also been supportive. One client was reported as saying: "If you need any help to save off the rodents, let us know." Another said: "You don't ditch people

you work with when they get into a bit of bother."

Barings Brothers executives said the reaction had been fantastic. "It rather brings tears to the eyes," said Mr Gold.

But at Wellcome, where Barings is working alongside Morgan Stanley, the US investment bank, the company did not rule out action if Barings were to be taken over by an institution with a conflicting interest in the struggle against Glaxo.

Nor were other companies willing to commit themselves to continuing to use Baring Brothers. Lloyds said: "There is so much up in the air at the moment." Another client, Incheape, the international trading company, said it was shocked and disappointed at what had happened, but it was too early to say how it stood.

The experience of another investment bank which went through crisis, Kleinwort Benson in the early 1990s, was that clients were initially supportive. But defections came later.

Barings Brothers corporate finance directors are conscious of the pressure of time. Mr Lupton said: "We realise that we have to come up with an attractive solution, a good quality home."

The division has to contend not only with potential client defections, but departures by members of staff. That would in turn accelerate the dissolution of the merchant banking franchise.

Executives said they had been bombarded with approaches. But the 12 directors of corporate finance, a closely knit department, met last night to vow that they would stay together.

It is less clear whether they will remain in the Barings group. Mr Gold said: "We want to move as a team. That is where our value is."

## ■ RESCUE TEAM - By Jim Kelly

## 'Still in business' say administrators



Mr Nigel Hamilton at the Ernst &amp; Young press conference

The administrators to Barings put on a bravura performance yesterday in an attempt to maintain the business' biggest asset - its reputation and the goodwill of its 3,000 worldwide employees.

"We are still in business. The group is still in business," lead administrator Mr Nigel Hamilton told a London press conference.

Mr Alan Bloom, also appointed as an administrator, said the workforce would not "let a hiccup like administration get in the way" of maintaining their commitment to the bank.

Officially the administrators of Barings have three months to prepare a rescue plan to put before the courts and creditors. It was quite obvious yesterday, however, that speed is of the essence.

Events have already moved remarkably quickly. Mr Hamilton said that the court order for administration had been passed late on Sunday evening by a judge presiding in an impromptu court in Barings' own London headquarters.

While the administrators will not cut corners they have every reason to avoid wasting time. The reason is easy to see: the specialised assets of the bank, the reputation and skills of its employees, can walk out of the door at any time.

Within 12 hours of the court

order being made, Ernst & Young had their people in teams on site at the UK premises of the bank and many overseas offices.

One senior insolvency expert, not with Ernst & Young, said yesterday: "Time is going to be critical here - I would expect to see most parts of the business sold within the next few days. If the people walk out, they don't have a business."

Ernst & Young said: "Our work at this stage has largely centred around reviewing the current position, liaising with the regulators, both overseas and in this country, and trying to understand how the various businesses operate."

The spokesman went out of his way to praise the staff and to make it plain that only "one specialised area" of the business had problems. This "in no way reflects the quality of the core activity of Barings corporate finance, securities research and central banking function which have been highly successful." He said there was every chance it could be successful again.

Mr Bloom said: "We haven't seen any signs of people leaving yet. We have given them our full support and they have given us their full support. A lot of this business depended on the goodwill of that workforce. It is highly skilled and highly talented."

The team put together by Ernst & Young certainly has the experience for the task - Nigel Hamilton is a leading insolvency practitioner who was involved in Canary Wharf, British & Commonwealth, Lowndes Queensway, Barlow, Clowes, and Laker Airways. Alan Bloom was joint administrator at Canary Wharf. Maggie Mills, also appointed as an administrator, is an expert in banking practice after experience with the failed British & Commonwealth merchant bank.

In the first days of the administration the team will concentrate on collecting, and verifying, information about the Barings' business. On a more mundane level they will take responsibility for matters such as building security. They will be opening up lines of communication throughout the group to different parts of the business to see which are affected.

Meanwhile a "frontman team" will be responsible for negotiating with potential buyers. Mr Hamilton made it clear yesterday that the hope was that the business could be sold as a whole - and that there were plenty of potential buyers in the UK and abroad.

The final outcome of the administration is difficult to predict. Mr Hamilton was upbeat about the prospects for creditors.

## ■ BARING SECURITIES - By Nicholas Denton

## Brokers stick together to seek new home

Baring Securities, the broking and marketmaking arm of the group, yesterday took its first tentative steps towards independence - and survival. It is in a weaker position than the corporate finance arm, which is compact and provides a steady stream of income.

It is more difficult to sell as an ongoing business. Most of its operations have been suspended after the insolvency of the group as a whole. In

major markets, Baring Securities remains active only in the US, where it has a separately incorporated and "ring-fenced" subsidiary.

The strengths in emerging markets, which were its speciality, are less appealing since the Mexican crisis and the fall from favour of developing economies.

But at its headquarters at 1 America Square yesterday the mood was purposeful. Morale

may have been boosted by the win which stood, opened, on the trading desk dealing with Japanese securities. No departures of staff were reported.

One who was out of contact was an employee helping Save the Children fund in Bosnia.

A triumvirate of Mr Desmond Kelly, Mr Michael Baring and Mr Michael Howell was leading the quest for buyers.

Baring Securities yesterday said it had a list of 20 potential

acquirers. Its analysts are still putting out reports and preparing the index of emerging stockmarkets which is a benchmark for investors.

Over the weekend staff contacted clients and asked them either to cancel orders or passed them on to other brokers. The house said it had dealt with most unsettled trades. Managers were also developing with the administrators guidelines for staff to

match Baring Securities' contractual obligations with the law relating to administration - telling them which deals they could complete.

It benefits also from being at arm's length from the derivatives trading which crippled the group. Mr Nick Leeson, the rogue trader, was part of Baring Brothers. A Baring Securities executive said yesterday: "This was an event that was not in our domain."

## ■ CHANCELLOR OF THE EXCHEQUER'S STATEMENT TO THE HOUSE OF COMMONS

## Clarke promises 'rigorous' regulatory review

This is the full text of a statement made to the House of Commons yesterday by Mr Kenneth Clarke, chancellor of the Exchequer.

With permission, Madam Speaker, I would like to make a statement about the insolvency of the merchant bank Barings.

The Bank of England announced late last night, ahead of the opening of the Far East financial markets, that Barings was unable to continue trading and was applying for administration. Barings' problems have arisen from major losses caused by unauthorised dealings by the chief trader in its Singapore incorporated subsidiary. The losses arise from contracts on the Singapore, Osaka and Tokyo exchanges. At the close of business last week total losses appear to have been in excess of £800 million. Crucially, these contracts have further to run, exposing Barings to further unquantifiable losses. As a result, Barings was unable to continue to trade without the injection of substantial new capital.

As the Bank of England announced last night, the British banks were prepared to supply all the capital needed to recapitalise Barings but only if it were possible to cap the potential liability of the outstanding contracts. In the event this did not prove possible. Other parties were not prepared to take on open-ended and therefore unlimited liabilities. The Governor did not recommend, and in any event, I would not have agreed that public funds should take on these liabilities. Regrettably, in the circumstances, there was no alternative to Barings having to apply for administration.

Although it was not possible at the end of the day to recapitalise Barings, I would like to take this opportunity to pay tribute to the Governor and his staff and the London financial com-



Mr Kenneth Clarke, the chancellor, arrives at the House of Commons to deliver his statement

munity for their commitment over the weekend to the search for a solution.

I would stress to the House, Madam Speaker, that these circumstances are unique to Barings and should not apply to other banks operating in London. The Bank of England is ready to provide liquidity to the banking system to ensure that it continues to function normally. Deposits at Barings are, of course, at the moment frozen and the extent of any losses on them will not become clear for some time. The deposit protection board will be writing to all of Barings' depositors potentially eligible for assistance.

Madam Speaker, the House will be rightly concerned about how such huge unauthorised exposures could be allowed to happen and build up so quickly without the knowledge of the company, the exchanges or the regulators. I am determined to address that question rigorously and to review the regulatory system thoroughly in the light of this collapse.

However, before we come to any firm conclusions, it will be necessary to establish in detail the facts of the case. These were transactions conducted on the far side of the world by overseas subsidiaries on overseas exchanges. There may be some falsification of the relevant records within the subsidiaries concerned. It will take some time to unearth the full and detailed catalogue of events and the methods employed to evade all the required management and regulatory controls.

I have asked the Board of Banking Supervision to investigate fully and urgently all aspects of this episode and to report back to me. The investigation will include the circumstances under which such unauthorised transactions were able to take place and to remain undetected until too late. The Board will need to work closely both with Barings and with the Singapore, Osaka and Tokyo exchanges. The House will recall that the Board of Banking Supervision is chaired by the

Governor of the Bank of England and comprises six independent members and three members appointed ex-officio from the Bank.

I can assure the House that I am determined that, when the full facts are known, all the appropriate lessons will be drawn and that any necessary corrective steps will be taken.

In today's global markets, the regulatory tasks are international and must be tackled internationally. Over the past two years, with other Finance Ministers in the G7, the G10 and the IMF, I have taken part in discussions of the need to ensure effective regulation of international dealings in derivatives and other instruments in high technology 24-hour trading conditions. The problems are obvious but practicable solutions are less self-evident. No system of regulation can ever guarantee total security. There is always the chance of unwise or fraudulent dealing by one or a group of individuals. The better the bank's systems and con-

trols the less likely this is to happen. Every regulatory authority and every bank must now be considering what further steps it can take to protect itself against this sort of risk.

Madam Speaker, I will report back to the House at the earliest opportunity on our analysis of this case, the lessons to be drawn and any proposals to strengthen security in highly complex financial markets. I would expect to publish a full report on the facts of the case subject only to the need to protect the legitimate confidentiality of innocent third parties and my other legal constraints.

Meanwhile we must also be concerned about the implications of this for the employees of what was, until a few days ago, a successful and highly respected firm. The administrator will no doubt take early steps to clarify the position of the 4,000 or so employees, some of whom will be needed to administer the assets of the business and many of whom work for successful and profitable businesses for which purchasers will no doubt be found. Some redundancies will be inevitable but the employees in this country will of course be able to rely on a measure of statutory protection in the event of their employer being so insolvent that difficulties arise in the payment of salaries and redundancy payments.

This failure is of course a blow to the City of London. But it appears to be a specific incident unique to Barings centred on one rogue trader in Singapore. There has inevitably been some turbulence in the markets since the announcement but global markets should be quite strong enough to absorb it without lasting damage since these events have not changed any of the fundamentals that underlie foreign exchange, equity and bond markets.

## ■ POLITICS - By James Blitz and Kevin Brown

## Labour attacks 'complacency' and urges inquiry

Mr Gordon Brown, the shadow chancellor of the exchequer, yesterday called on the government to set up a fully independent inquiry into the Barings affair, arguing that the public demanded a neutral assessment of the problems posed by derivatives trading.

During exchanges in the House of Commons, Mr Brown expressed concern that the Board of Banking Supervision, which is to investigate how Barings was drained of funds, is to be chaired by Mr Eddie George, governor of the Bank of England.

Attacking what he called the "culture of complacency" surrounding the regulation of UK banks, he said an independent inquiry was needed "so that it can examine among other things, objectively, the actions of the Bank of England and regulatory authorities".

According to senior Labour officials, Mr Brown will argue that the Board's links to the UK central bank make it incapable of producing a credible judgment on how Barings was drained of its funds.

"If you were going to set up an independent inquiry to decide whether the Bank of England had failed in its regulatory responsibilities, the last person you would choose to chair it is Eddie George", a Labour official said.

Mr Brown's views received partial endorsement from Sir Peter Tapsell, a Tory MP and member of the London Stock Exchange, who criticised the activity of financial futures dealers. "That really is so speculative in nature as to deserve the term 'gambling' and perhaps should be banned by international law", he said.

But the bulk of Tory MPs were supportive of the stance which Mr Clarke had taken on the Barings affair. Mr Matthew Carrington said: "Before we rush in with new regulations, we need to make certain whether the losses that Barings sustained weren't in fact caused by the abuse of the existing regulations."

In later exchanges, Mr Clarke said he was being updated constantly in a "rapidly moving scene."

He said he understood Barings had first become aware of the problem in its Singapore branch the weekend before last. He said Barings had sent someone out to the branch on Monday, but, by Thursday, had realised the serious nature of the losses. He said the Bank of England had been informed on Friday and the Treasury later that afternoon. "Although that sounds very late, the fact is that most of these liabilities had piled up in a very short space of time."



## Rubin puts forward banking reform plan

By George Graham in Washington and Richard Waters in New York

The Clinton administration has joined an accelerating bandwagon in favour of breaking down the ownership restrictions that have separated the different branches of the US financial services industry since the Depression.

Mr Robert Rubin, the Treasury secretary, yesterday called for the repeal of the Glass-Steagall Act, which was passed in 1933 after a national run on the banks that threatened to destroy the US financial system and which prohibited banks from selling or underwriting securities.

In a speech to the Greater New York Savings Bond Committee, Mr Rubin said the reforms he proposed would allow banks to simplify their ownership structure by allowing traditional commercial banks to own securities companies or other non-bank subsidiaries directly.

Mr Rubin's proposals follow the same general line as separate reform plans put forward by Congressman Jim Leach and Senator Alfonse D'Amato, who chair the House of Representatives and Senate banking committees, but differ in detail.

Mr Leach's bill is more narrowly drawn, and would still prevent banks from being owned by insurance companies. Mr D'Amato favours much more sweeping changes to the law, and has introduced a bill that would do away with all restrictions on affiliation between banks and other

financial or non-financial businesses.

The Treasury approach is somewhere between the two, allowing insurance companies to own banks but not permitting wholesale ownership links between banks and industry.

While some US commercial banks have made considerable headway since being allowed into the securities business by Federal Reserve fiat in the late 1980s, they complain of two lingering problems.

Their securities subsidiaries can earn no more than 10 per cent of their revenues from underwriting securities issues. This restriction was imposed by the Fed in the 1980s and has not since been increased, even though Glass-Steagall says only that the subsidiaries must not be "engaged principally" in underwriting.

"The 10 per cent limit has clearly been a constraint on our securities business," said Mr Ed Shaw, general counsel at Chase Manhattan. "We have not been able to do business we wanted to do."

The second complaint surrounds the so-called "firewalls" which separate securities and banking operations, originally designed to prevent problems from one side infecting the other. Banks say these restrictions prevent them from undertaking some legitimate activities, such as using letters of credit or other credit facilities as backstops to support securities issues for their customers.

Commercial banks generally say that they are more confident about the chances of reform now than when similar



Rubin: reform plan

legislation has been proposed in recent years.

"This is the first time that we've had both houses actively thinking of reform," said Mr Shaw.

The Republican victory in last November's elections has removed the main obstacle to repeal of Glass-Steagall: the implacable opposition of Democratic Congressman John Dingell, who for 14 years chaired the energy and commerce committee, with jurisdiction over the securities business.

## Sober Chile spared tequila hangover

Cautious investment policy has helped buck the regional trend, writes Imogen Mark

As other Latin American countries struggle with current account and fiscal deficits and prepare for tough budget cuts, Chile is emerging from a two-year cooling-off period ready to take advantage of the stronger world economy.

In 1994 Chile had a modest deficit, 0.9 per cent of GDP, according to the central bank. There was a \$700m surplus on total trade of \$2.4bn, and a capital account surplus of \$4.15bn. Reserves stood at \$13.5bn at the end of December, 15 months' worth of imports.

Some of the good news was accounted for by higher prices and increased production of Chile's main export, copper. But the economy is less dependent on its old mainstay than before, thanks to diversification of the economy under strong investment.

Foreign investment reached a record \$4.2bn last year, 70 per cent up on 1993, according to the government's foreign investment committee. More than half, \$2.5bn, was direct investment in new projects, in gold and copper mining, energy plants and telecom and cable television companies. Another \$1.7bn came from stock issues by Chilean companies on Wall Street, through American Depositary Receipts.

But the government and the autonomous central bank have stuck to a policy of limiting access for foreign investors, and feels justified by the results.

Though overseas investor confidence weakened after the

### The government has limited access to foreigners

Mexican devaluation, Chile did not suffer a dramatic outflow of funds. And the restrictions mean there is no dollar-denominated government debt equivalent to Mexico's *tesobonos*. The public sector foreign debt stood at \$9bn at the end of 1994, but only \$493m is short-term. Total foreign debt stands at \$21 bn, about 41 per cent of GDP.

Overall, GDP grew a respectable 4.7 per cent in 1994, to an estimated \$50.7bn, and economists expect it to grow at least 6 per cent this year. The consumer price index came down to 8.9 per cent, after sticking obstinately between 12 per cent and 25 per cent for more than a decade.

There is consensus that the inflation cycle has been broken, and the central bank's target for 1995, 8 per cent, is achievable.

As Mr Jorge Marshall, vice-president of the Central Bank, puts it: "None of the ministers in the economic team changed their holiday plans as a result of the events in Mexico."

Whatever happens there, Mr Marshall says, the worst that can happen to Chile is that capital inflows could be affected by investor distrust of the entire region. In this case, he claims, the central bank, with its substantial currency reserves, will be able to support the value of the peso.

Mr Juan Andres Fontaine, an independent economist and former head of studies at the central bank, agrees some reduction in capital inflows will do the economy little harm. He argues local companies can turn to the local capital markets to finance new investments.

Domestic interest rates have eased recently, but the bank prime rate still stands at 6.8 per cent a year.

Domestic savings are running at positively Asian levels, 25.5 per cent of GDP last year. Private pension funds, known as AFPs, set up in 1981, account for around 4 per cent of the annual growth in

savings, and foreign investment accounts for a similar 4 to 5 per cent.

The stabilising presence of the domestic institutional investors in the stock market, and the size of domestic savings, distinguish Chile from its neighbours.

Chile's intra-regional trade

### The inflationary cycle has now been broken

has picked up sharply since the beginning of the decade and last year represented about 15 per cent of total exports. However, Mr Marshall claims that in the event of a protracted regional depression Chile would be able to divert commodity exports to other markets. Finished products would be harder to sell elsewhere, but the impact would be felt by specific sectors rather than the economy as a whole.

Chile has the advantage of having experienced problems similar to Mexico's a decade earlier, and having learned some useful lessons.

At the time of the Latin American debt crisis of 1982, Chile had a current account deficit of 9 per cent of GDP, an

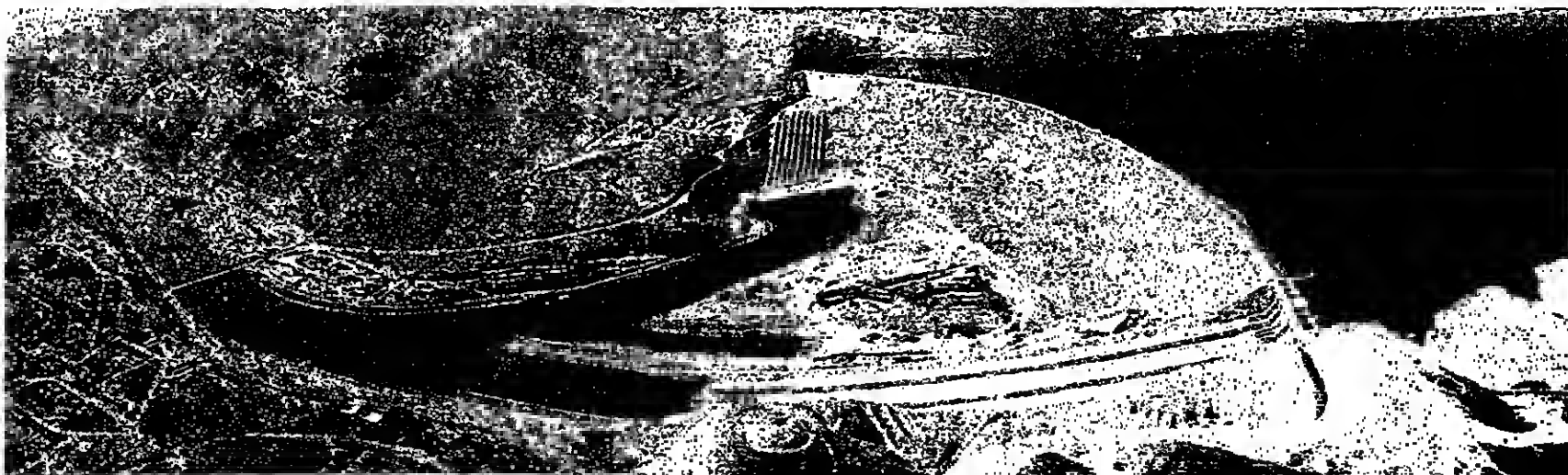
over-valued currency, fixed at 39 pesos to the dollar, and poorly-regulated banking sector.

When the government finally devalued, in September 1982, most of the banks and many of the biggest private companies were technically insolvent and had to be bailed out. The two biggest private banks and the business groups that owned them were among many enterprises taken into interim state management. The Finance Ministry, under Mr Hernan Buchi, had to rebuild the private sector almost from scratch. He devised tax incentives to spread private share ownership.

But the key lesson they learned, says Mr Fontaine, was that "keeping the fiscal budget balanced was necessary but not sufficient". They learned that to use fiscal and monetary policy to control aggregate spending, and to orient private spending, he says.

Subsequent governments, and the Central Bank, have kept those lessons very much in mind. And though Mr Fontaine feels more could be done to restrict spending, and remove restrictions on the capital account, he is confident "it would be hard to find a country better prepared than Chile today to face bad weather."

## Why Turkish construction companies are major players in the international arena?



The Atatürk Dam, the third largest earth-filled dam in the world, is just one of the thirteen integrated irrigation and hydropower projects that comprise GAP, the Southeast Anatolian Project, designed and built by Turkish engineers and construction companies.

### ...We've been practicing!

After building modern Turkey, our contractors turned their attention to international projects.

With decades of experience behind them in designing and building motorways, bridges, dams, power plants, and all kinds of structures, Turkish contractors have captured eight percent of the international construction business. From the broiling deserts of North Africa to the freezing mountain terrain of Russia, Turkish engineers and construction crews have gained widespread recognition for their standards of excellence.

The success of our contractors reflects the enterprising nature of Turkish business. With more than half of the population of 61 million under age 23, Turkey is Europe's youngest nation. A culturally and ethnically diverse nation that is industrious, motivated and capable of building just about anything, from dams to satellite cities to cars, trucks and household appliances.

Many of the best known corporate names in the world discovered Turkey's long-term advantages years ago. As a technically-sound and globally-minded business partner. As a center for regional expansion. And as a modern and rewarding place to do business.

So if you are keen to build up your business, isn't it time you found out what so many already know: Turkey is the key place to be.

**TURKEY**  
THE KEY

### AMERICAN NEWS DIGEST

#### Argentina delays T-bills auction

Argentina's Economy Ministry yesterday suspended today's treasury bill auction just hours before it was due to announce details of a package to cut public expenditure by \$1bn. The ministry gave no reason for its decision, nor did it specify when the auction might be rescheduled.

The treasury had hoped to raise around \$300m (\$125m) today through the issue of short-term notes in order to meet its target of \$1.7bn for the first quarter. The money is needed to pay \$1.5bn worth of maturing debt.

In the previous two auctions, the ministry had paid coupons of 10.4 per cent and 11.6 per cent respectively, reflecting tightening liquidity in Argentina's battered markets. The treasury had not been able to place peso-denominated notes at all, reflecting continued market fear of devaluation.

Mr Domingo Cavallo, the economy minister, last week hinted that, if interest rates rose too high, he would suspend the auctions. On Friday, interbank "call" money rates had risen to 17 per cent, reflecting the credit crunch that has racked the Argentine financial system since Mexico's devaluation. David Pilling, Buenos Aires

#### Bordón may challenge Menem

Dissident Peronist Mr José Octavio Bordón looks likely to challenge Mr Carlos Menem for Argentina's presidency this May after taking the lead yesterday in a primary organised by Frepaso, a centre-left political alliance.

Senator Bordón, 48, is expected to head the Frepaso ticket with Mr Carlos "Chacho" Alvarez, second in Sunday's primary, as vice-presidential running mate. Mr Bordón has been a successful former governor of Mendoza, one of the few provinces to prosper in recent years.

Mr Bordón joins a three-man race, alongside Radical hopeful, Mr Horacio Massaccesi, and President Menem, who is expected to dominate. David Pilling, Buenos Aires

#### Papal envoy for Ecuador-Peru

Pope John Paul II is to send a peace envoy to Ecuador and Peru, the Vatican said yesterday. Envoy Cardinal Alberto Furio will hold talks with officials of the two countries in an effort to persuade them to respect a ceasefire agreement in their territorial dispute signed earlier this month, the Vatican said.

Fighting broke out between the two Andean countries along the Cordillera del Condor mountains on January 26. A ceasefire and peace treaty were signed on February 17 but fighting has continued in the remote patch of Amazon jungle. Reuters, Vatican City

#### Denver airport opens

A controversial \$4.2bn (\$2.6bn) airport is due to open in Denver, Colorado, this morning after 16 months of delays caused by difficulties in getting its state-of-the-art computerised baggage handling system to work. Replacing the city's congested Stapleton airport, the new Denver International Airport is the first large airport to be built in the US since the completion of Dallas/Fort Worth International in 1974.

The visually striking terminal building has a tent-like, fabric roof shaped into 34 peaks symbolising the nearby Rocky Mountains. Critics say it is a white elephant, conceived at a time when air traffic was growing more rapidly than now.

Construction, financed through bond issues, has cost more than twice the original estimate of \$1.7bn. But Denver city officials believe the airport will give a powerful boost to the local economy. Richard Tomkins, New York

#### Court ponders discrimination

The US Supreme Court yesterday agreed to review a case that could determine whether civil rights laws designed to protect against discrimination on the grounds of race also protect against nationality-based discrimination. The court said it would hear arguments from Gelco, an insurance company, that it was entitled to refuse to sell insurance to people who are not US citizens.

Gelco was sued by Mr Vincent Duane, an Australian who lives permanently in the US, after it refused to insure his home in Baltimore. Gelco's attempts to have the case dismissed were rebuffed by a federal judge and by the federal appeals court in Richmond, Virginia.

The 1961 Civil Rights Act made it clear that discrimination is barred in private as well as government contracts, but Gelco argues that it is only barred from racial bias, not discrimination on the grounds of citizenship.

Although the case refers to contract law, some lawyers believe it could provide clues to the Supreme Court's views on measures both at the state level and in the US Congress aimed at restricting social services and welfare benefits to aliens, both legal and illegal. George Graham, Washington



## NEWS: EUROPE

Vital measures go before parliament for the first time today. Robert Graham reports

# Lira pays price for budget nervousness

The lira suffered a fresh and dramatic decline yesterday, falling almost 4 per cent against the D-Mark and weakening against all major currencies. It was the largest single fall since the crisis of September 1992 and the Bank of Italy is understood to have intervened heavily. Over the past two weeks the currency has declined 8 per cent against the D-Mark.

The Italian currency had closed last Friday at L1.107 against the D-Mark but opened yesterday at L1.125 and was soon at a new historic low of L1.161 before being officially fixed by the Bank of Italy at L1.147.

The continued weakening of the lira was only partially caused by problems in the international currency markets and the knock-on effect of the Barings merchant bank collapse. Nervousness about parliamentary approval for last week's £20,000bn (£7.8bn) mini-budget and the length of the government's mandate played an important part.

The package of financial measures, designed to hold the

## Commissioner warns over devaluation's effect on competitiveness

Mr Mario Monti, EU commissioner for the internal market and financial services, has warned that there is growing concern among industrialists that the lira's devaluation is giving Italian companies an advantage over their European competitors, writes Caroline Southey in Brussels.

It was impossible to have a guaranteed single market in a situation where currency fluctuations were left unchecked, he said, adding that the

1995 budget deficit to its original target of 8 per cent of gross domestic product, was unveiled last Thursday by Mr Lamberto Dini, the prime minister.

The mini-budget is due to begin its delicate passage through parliament today when it goes before the Senate. The measures are essential to restore Italy's public finances and Mr Dini has hinted that he will resign if he fails to obtain approval for the package. In this, the attitude of the former governing right-wing coalition headed by Mr Silvio Berlusconi, the ex-pre-

mier and leader of the Forza Italia party, will be crucial.

The government, composed entirely of non-parliamentarians, lacks a natural majority in parliament. Mr Dini won a vote of confidence on his mandate last month supported by the parties of the centre-left and with the abstention of Mr Berlusconi and his allies. This was to underline Mr Berlusconi's determination to hold fresh general elections in June.

It would be sufficient for the mini-budget if the right-wing coalition abstained this time. However, Mr Berlusconi

appears anxious to demonstrate to the electorate he is against raising taxes and has warned he will propose counter-measures.

Some of his closest colleagues like Mr Cesare Previti, the former defence minister, have gone further and urged a vote against the budget. Mr Giuseppe Tabetella, head of the right-wing National Alliance parliamentary group and former deputy premier, has suggested tabling a vote of no confidence to ensure a June general election.

Adding to the confusion over the budget has been a disturbing new twist to the long-standing discord between President Oscar Luigi Scalfaro and Mr Berlusconi. Last weekend, the president openly accused Mr Berlusconi of irresponsibility in pressing for early general elections, and linking them with regional polls.

The president for the first time made no effort to conceal his antipathy for the media magnate turned politician, and pointedly told Mr Berlusconi only the head of state had the authority to dissolve parliament. He further backed Mr

Dini's decision to allow regional elections to be held under new laws, approved last week in parliament, and to ensure that pension reform is completed, could "serenely" return to Italian politics and a measure of stability return to the financial markets.

Although Mr Scalfaro has since offered to hold a formal meeting with Mr Berlusconi and his partners, the reputation of both has been staked on the elections issue. Mr Berlusconi himself has made little reference to the lira's problems and even appears to believe a financial crisis might help his electoral chances to appeal to the nation as a saviour.

But despite the posturing, Mr Berlusconi and his allies have yet to take a formal position on the mini-budget. This suggests a considerable degree of internal difference. The more prudent are aware that Mr Berlusconi's opposition to a budget prepared by the man he brought to the treasury from the Bank of Italy might backfire in more ways than one. *Lex, Page 18*

## French reveal a passion for opinion polls

David Buchan reports on how surveys fill a political vacuum



FRENCH ELECTIONS  
April 23-May 7

The penchant of the French for constantly taking their temperature, political as well as medical, is reaching fever pitch. In the first six weeks of this year more than 40 surveys of voters' intentions were published, and the pace is accelerating now that the presidential campaign is in full swing.

This plethora of polls can affect the course of the campaign and the economy. The publication of three separate polls published last Wednesday, recording apparent gains by Mr Lionel Jospin, the Socialist party candidate and losses by prime minister Edouard Balladur, led to a fall in the franc and crisis meetings within the Balladur campaign.

The French polling commission, which monitors published political polls, partly reminded the media and commentators that they were concluding far too much from far too small swings that were mostly within the 2.3 per cent statistical margin of error on regular samples of 1,000 people. The commission again pleaded with the media to warn their audience of such error margins, a request that French publications, with the honourable exception of Paris-Match, never heed.

The French are besotted with taking their pulse, and not just on politics. In 1993 1,021 polls on all sorts of issues were published in France, around half by the media and the rest by private companies and public bodies, and a far larger number of polls remain confidential.

Obviously, political polls follow the rhythm of elections. But even in relatively quiet electoral periods, "the media in France devote more column inches and air time to political polls than in any other country", says Ms Anika Michalowska, editor of L'Opinion, an international newsletter on polling.

Why is this so? The main answer, according to Mr Eric Teinturier of the top polling institute, is that, under the Fifth Republic, presidents are elected by universal suffrage and certain decisions are put to national referenda, giving politicians a strong incentive to keep tabs on what the public is thinking. "Before 1958 [when the Fifth Republic was created] political polling barely existed," he says.

The generally weak role and structure of French political parties also means that politicians use the polls, rather than their own parties, to guide their behaviour. Even though their Union for French Democracy federation has almost entirely deserted them for Mr Balladur, the ex-president, and Valéry Giscard d'Estaing, and his former prime minister, Mr Raymond Barre, are still seriously sifting the polls to decide whether one or other of them might run. Likewise, the

Socialist party's rank and file chose Mr Jospin over their party leader, Mr Henri Emmanuelli, to be their presidential nominee because the former led the latter in the opinion polls.

In addition, the French press like the publicity that polls give them. They seem to find a poll costing them anywhere between FF40,000 (\$6,135) and FF250,000 (\$39,062) depending on the length of the questionnaire, a relatively cost-effective way of trying to counter their present problem of falling or stagnating circulations.

How good are the polls? The French polling industry, whose top 10 companies turned over FF4thn and employed 2,600 people in 1993, has an advantage over some of its foreign counterparts in being able to

## Because of a weak French parliament politicians follow the real debate - in the streets

draw on the very exhaustive knowledge of the population drawn up by Insee, the government statistics agency. French pollsters use this Insee data to make up their samples by quota, age, sex, region, profession and so on - in contrast to the random sampling often used abroad.

They also "correct" the results by asking people who they voted for at a previous election, and then checking the actual overall result was at that election. "For instance, we often find there are not enough people from the National Front [Mr Jean-Marie Le Pen's extreme right wing party] in our samples," says Mr Teinturier. "Because they do not always own up to having voted that way in the past. So we correct for this."

For these reasons, French pollsters reckon they are as good, or better, than anyone in the business. But any poll has a margin of error, they acknowledge. Only the BVA polling institute seems to make systematic reference to error margins in the polls they send to clients.

France's addiction to polls is both cause and effect of serious defects in the country's political system. It is the result of weak political parties, particularly at the grass roots and of weak unions (except in the state sector). A weak parliament means that real debate often takes place in the streets, hence both the difficulty of - and the importance to - those at the top of knowing what the man-in-the-street is thinking.

It is not surprising, therefore, that France has a leader, like Mr Balladur, who conducts reforms as if he were walking on eggs. Mr Balladur was at Georges Pompidou's side in May 1998 and does not want another "omlette". Part of his solution is a promise to make more use of referenda. If he is elected president this May,

## Nato secretary-general changes line over kickback allegations

By Bruce Clark and agencies

Mr Willy Claes, the secretary-general of Nato, appeared before Belgian investigators yesterday to state his position over the kickbacks allegedly paid to the Belgian Socialist party by the Italian helicopter company Agusta.

In a terse announcement, an alliance spokesman said: "The secretary-general this afternoon, on his request, made a declaration to the judicial authorities handling the Agusta affair." Mr Claes was economic affairs minister in 1988 when the payment is alleged to have been made. After initially denying all knowledge of the affair, he said last week he remembered vaguely that Agusta had made an offer.

Investigators also questioned Mr Frank Vandenbronck, the Belgian foreign minister, about the scandal.

Hours before the announcement, the embarrassment of Mr Claes over the Agusta affair was highlighted when he abruptly cancelled plans to appear alongside US Vice-President Al Gore at a news briefing.

Had he faced the press, the secretary-general would have run into a barrage of questions about the incentives allegedly used by Agusta to secure a contract to supply helicopters to the Belgian army.

A week ago, when Mr Claes first suggested to Nato ambassadors that he volunteer a statement to the judicial authorities, envoys are understood to have responded coolly to the idea. Since then, pressure on the secretary-general



Willy Claes, under a cloud over his alleged knowledge of kickbacks to his party, sorts out his spectacles at the beginning of yesterday's meeting of Nato ambassadors and Al Gore

has mounted, and his own version of events has changed.

Mr Gore expressed his full support for the Belgian politician. "The United States has full and complete confidence in Secretary-General Claes," he told newsmen.

On other alliance issues, Mr Gore suggested that the west, which is trying to formulate a new strategic relationship with Russia, may drop its insistence that Moscow take part in a

Nato-inspired military co-operation programme. The suggestion of a softer line towards Moscow came as Mr Gore told reporters of the "very productive and useful" talks between US and Russian officials which took place in Washington last week.

The talks apparently failed to secure agreement on the despatch of a reassuring letter from President Bill Clinton to President Boris Yeltsin.

Mr Douglas Hurd, the UK foreign secretary, is expected to call today for relations with Russia to be managed carefully as Nato moves to take in new members in central and eastern Europe.

In a speech to a foreign policy association in Berlin, Mr Hurd will argue that Nato enlargement will only be a worthwhile project if it makes Europe a safer and more stable.

He will also refer to European Union enlargement, saying that existing members will need to adjust as much as future ones.

Mr Hurd is using his German trip to drive home the UK view that Europe should acquire greater self-sufficiency in defence, without creating new supra-national institutions or giving the European Union any say over defence.

Britain wants the Western European Union - Europe's defence arm - to be strengthened, but unlike Germany it has ruled out the idea of creating new supra-national machinery for the security of the continent.

## CDU slaps down Kinkel critic

Chancellor Helmut Kohl's Christian Democratic Union (CDU) moved quickly yesterday to avert any threat to Germany's governing coalition, slapping down a senior party member who had criticised Mr Klaus Kinkel, the foreign minister, Reuter reports from Bonn.

Mr Heiner Geissler, a prominent CDU reformer, had accused Mr Kinkel on German television on Sunday of being too soft on defending human rights, sacrificing them on the altar of diplomacy.

Yesterday, however, the Chancellor's minister, Mr Friedrich Bohl, called Mr Geissler's attack "completely absurd". He said in a state-

ment: "His self-promotion efforts will not break up the coalition."

Mr Kinkel heads the Free Democrats (FDP), the troubled junior partner in the coalition. Tensions have become evident as the FDP's electoral fortunes have waned, raising the spectre of political extinction for the party.

However, Kinkel also played down any threat to the partnership which has governed Germany since 1982. "This coalition will easily last four years," he told German radio. "There are too many differences with other potential partners."

"Mr Geissler has written a book that will appear on the

market soon. Apparently he is trying to make headlines," he said. "I do not need any extra lessons from Mr Geissler in human rights," he said, adding that he had spoken out strongly against violations in Turkey, Iran, China and other countries.

Mr Geissler has started a minor uproar by suggesting in his book that conservatives should form a new Bonn coalition with the environmentalist Greens.

He had to back off after party colleagues poured cold water on the idea. But he has stuck to the prospect that the once-radical Greens might become the CDU's partners some day if the FDP faded

from the political scene.

The FDP had crashed out of nine consecutive regional state elections before staging a comeback in Hesse this month by winning more than the minimum 5 per cent of the vote.

Mr Kinkel has credited his party's rebound in Hesse to its platform in favour of cutting taxes, promoting small and medium-sized business, liberalising abortion and making it easier for foreigners to get German citizenship.

He has said that pushing this liberal agenda harder in Bonn is the key to FDP success in crucial state elections in North Rhine-Westphalia and Bremen in May and in Berlin in October.

## Riga to rule on Russian illegals

Latvia's cabinet will decide today whether to deport up to 2,000 former Russian servicemen and their families who stayed on after Russian forces pulled out of the country, Reuter reports from Riga.

A decision to deport would probably harm the Baltic country's relations with Moscow, but could be justified on the basis of existing agreements between the two, Latvian government officials said yesterday.

Russia and Latvia signed an agreement last spring under which all servicemen demobilised from forces in the newly independent country after January 28 1992 should have left by August 31 1994.

Senior Foreign Ministry official Aivars Vovars, who has special responsibility for Russian relations, said the government would make a decision on deportation today. Latvian immigration rules include the possibility of expulsion, he said.

Asked how deportations might affect relations with Moscow, Mr Vovars said: "Of course they would seriously complicate our relations with Russia."

"But Russia recognises that the treaty is supposed to be complied with and there could not be too much protest."

Riga has estimated there are about 2,000 illegals and has ordered them to register by March 1 for temporary residence up to April 30. After that deadline they must leave.

The Russians say more time is needed because the families insist they have nowhere to live in Russia.

In talks on the issue, Russian representatives have put forward a list of 1,641 persons who are in breach of the treaty and provided a schedule for their planned departure dates that runs to the end of the year.

Officials say Latvia has so far failed to

agree to this. They point out that 300 more people in the category, who were not on the Russian list, have already come forward voluntarily. "This list is incomplete," an immigration official said.

Mr Vovars said: "There are a lot of people among the group who want to stay and do not intend to leave. They will use all possible means to stay, like counterfeiting documents, therefore we don't have much chance to reason with them."

Mr Ugis Sales, deputy head of the Interior Ministry's citizenship and immigration department, said deportation was a serious option.

"The Interior Ministry will use the means provided by law against those persons who do not become legalised - and that is expulsion," he said.

However, Mr Sales said he thought the deportation issue was secondary to the bigger battle of principle with Moscow.

## EUROPEAN NEWS DIGEST

## EU-Moscow N-plants deal

Russia and the European Union signed an agreement yesterday that limits the liability of western aid and equipment suppliers who are engaged in making safe Russia's ageing nuclear power stations. The interim deal, signed by Mr Hans van den Broek, the Brussels commissioner for eastern Europe, and Mr Viktor Mikhailov, the Russian atomic energy minister, clears away one of the main obstacles to an array of nuclear safety projects.

Companies funded by the EU's Tacis programme, designed to help the countries of the former Soviet Union modernise their economies and infrastructures, have long complained that the absence of a liability-limitation deal left them open to law suits in the event of a nuclear accident. The nuclear safety element of Tacis has pumped Ecu327m (\$257m) into projects in Russia and Ukraine since 1991, although many have stalled, awaiting clarification of legal liability. The Commission said it would continue to press the Russian government to sign the Vienna Convention which confines accident liability to the operator of a nuclear installation. *Reuter, Brussels*

## France tries to end US spy row

Mr Edouard Balladur, the French prime minister, yesterday attempted to put an end to an embarrassing and bitter dispute over industrial espionage between France and the US that erupted last week. In an official statement, he said he had told Mr Alain Juppé, the foreign minister, and Mr Charles Pasqua, the interior minister, that there would be no more comment "public or private" about the activities of "certain citizens in the country". Yesterday afternoon Ms Pamela Harriman, the US ambassador to France, visited his office, after which both sides refused to discuss what had been said. The meeting came after reports that Mr Pasqua had repeatedly asked Mr Harriaman to withdraw five US citizens from France following allegations of commercial espionage. Mr Pasqua blamed the US for the leaks but this was denied by the US embassy. French domestic opposition suggested the Balladur government could have leaked the spy story to overshadow a phone-tapping scandal that was embarrassing Mr Balladur at a time when opinion polls had him as clear frontrunner in the race for the presidency. *Andrew Jack, Paris*

## Paris seeks long EU presidency

Mr Alain Juppé, the French foreign minister, yesterday called for the duration of the presidency of the European Union to be lengthened to up to two years. Speaking at a meeting in Paris yesterday, he said that the EU inter-governmental conference to be held next year should consider extending the term to one or two years from the current period of six months. He said that a longer term would be "more representative and more effective". Mr Juppé's comments came during the second month of France's presidency of the EU, control of which will switch to Spain at the end of June. At the same meeting, he said that enlargement of the EU to include the countries to the east was "inevitable, necessary and welcome", and said he saw the possibility of eventually developing partnership agreements - falling short of membership - with certain other countries such as Russia. *Andrew Jack, Paris*

## Tobacco advert brings a fine

The director of a weekly news magazine has been fined FF810,000 (\$160,000) for carrying advertisements breaching anti-tobacco regulations, according to a court judgment made public yesterday. The court of appeal in Paris on Friday confirmed judgments made in lower courts last year that Mr Francois Siegel, director of VSD (for vendredi-samedi-dimanche), must pay damages and interest to two anti-tobacco groups which brought action against him. The judgment goes beyond existing legal rulings to suggest that periodicals reproducing advertisements deemed to break existing tobacco laws can be held accountable alongside the advertisers themselves. Tight regulations on tobacco and alcohol advertising came into effect in 1993. The two organisations that brought the action - the Association Against Excessive Smoking and Its Effects and the National Committee Against Excessive Smoking (CNCT) - have both been active in pursuing tobacco companies through the courts in an effort to counter the spread of smoking in France. Earlier this month, CNCT urged its supporters to buy shares in Seita, the state tobacco monopoly now being privatised, to have a say in company policy. *Andrew Jack, Paris*

## Italian probe over false invoices

Mr Vittorio Missoni, son of Ottavio and Rosita Missoni, Italian designers of fashion knitwear, has been arrested and questioned about a trail of false invoices which magistrates believe could lead to Publitalia, the advertising agency which is part of Mr Silvio Berlusconi's Fininvest group. Mr Missoni was arrested at Varese, near Turin, on Friday and questioned yesterday by Turin magistrates in his capacity as legal head of MGP, a company which organises sponsorship of offshore powerboat racing. Mr Giovanni Arnaboldi, a former powerboat pilot and Mr Missoni's partner in MGP, is also wanted for questioning. Italian news agencies said magistrates were following up allegations that MGP and GPA, another company connected with Mr Arnaboldi, involved Publitalia between 1991 and 1993 for L2bn (\$47m), but received substantially less. Publitalia and Fininvest have denied allegations that false invoices were used to set up a slush fund within the group. Milan magistrates are looking into the alleged involvement of Mr Romano Comincini, an outside consultant to Publitalia, in a web of false invoicing. Mr Comincini, who has not been tracked down by magistrates, is a friend of Mr Berlusconi and his brother, Paolo. *Andrew Hill, Milan*

## ECONOMIC WATCH

## Italian inflationary build-up

Italy

Industrial producer prices

Annual % change

1993

1994

1995

Source: Datastream

Producer prices in Italy continued to rise in December, confirming the worrying inflationary trend first noted in the October figures. The industrial producer price index prepared by Istat, the state statistics institute, rose by 0.6 per cent between November and December, and was 5.4 per cent higher than in December 1993. On average, producer prices increased by 3.8 per cent in 1994, compared with 1993, but the year-on-year increase for December was the highest for any month in 1994. While exporters have benefited from the continuing weakness of the lira, they have also begun to worry about the increasing cost of imported raw materials. Last week, the Bank of Italy had to raise interest rates to combat inflation fears. The highest price rises came in the metals sector, where the increased price of steel tubes helped push up the index by 2.3 per cent against November, and by 14.7 per cent compared with December 1993. Chemical and pharmaceutical prices rose by 11.3 per cent in December compared with the previous year, or 1.4 per cent against December. *Andrew Hill, Milan*

The Dutch budget deficit was 2.3 per cent of gross domestic product in 1994, below earlier forecasts after strong economic growth unexpectedly boosted government revenues. The government had estimated the deficit at 2.8 per cent of gross domestic product in its September budget.

Dutch consumer spending, unadjusted for price swings, rose 1.6 per cent last year from a year earlier. While consumers in the Netherlands spent more money on food, beverages and tobacco as well as on services, spending on durable consumer goods grew only moderately in 1994 from 1993.



## Race tension overshadows Le Pen show

By Andrew Jack in Paris

France's extreme right-wing National Front launched a pre-election roadshow in Paris yesterday as tensions grew over its provocative handling of racial issues in the run-up to the presidential contest this spring.

Mr Jean Marie Le Pen, the leader of the party who is expected formally to announce over the next few weeks that he is running for the presidency for a third time, called for a "peaceful" campaign by his supporters following what he claimed were threats of violence against the National Front from extremist groups.

However, his speech was overshadowed by continued concern over the killing in Marseilles last week of a 17-year-old student with ethnic roots in the Comoro Islands, a former French protectorate, by a supporter of the National Front.

Yesterday's event was also marked by a display of the distaste shown by many French towards the party, with staff at the Eiffel tower, the location for the rally, trying to distance themselves by closing the national monument to visitors.

Their action came after a decision on Sunday evening by Ms Anne Sinclair, a journalist who normally presents a popular current affairs programme called 7-sur-7, to refuse to interview Mr Le Pen as part of a long-running dispute with him.

France has been gripped by renewed racial debate over the last few days following the death of Ibrahim Ali, who was shot in the back in the early hours of Wednesday in a suburb of Marseilles as he returned from a rehearsal with about 14 fellow members of a music group.

There are widely differing versions of what took place, but the public prosecutor in the city has placed under investigation for murder or

complicity three supporters of the National Front who had been sticking up posters of Mr Le Pen and Mr Roland Perdomo, who is running for mayor in the municipal elections in June.

In the Sunday evening television interview, which went ahead with another presenter and attracted a record audience of nearly 7m viewers, Mr Le Pen refused to condemn the shooting in Marseilles.

He said it was "regrettable" but that it was "a simple incident with bill-stickers, not a racist crime" and involved "accident of legitimate defence". He maintained his policy that if elected president he would repatriate 3m immigrants over the seven years of his term.

His comments were attacked by a number of anti-racist groups which helped organise rallies over the weekend involving thousands of marchers in Marseilles, Paris, Lyons, Caen and a number of other French cities.

Many of France's politicians have also become involved in the debate, with Mr Robert Hue, the communist party candidate for the French presidency, last week saying that Mr Le Pen was "responsible" for the violence and that his posters were "a real call to hatred".

Mr Ali has been dubbed by the French press as the first victim of the presidential election, yet his death is no longer even the most recent in which race may have played a role.

Some 200 people marched through the streets of St Etienne, in south-eastern France, yesterday following the fatal shooting in front of one of the city's mosques late last Saturday night of Mr Mohamed Azza, a 55-year-old plasterer and painter originally from Morocco.

One slogan read: "We are not animals... Marseilles, St Etienne is enough."

## Russian bankruptcy agency to get tough

By John Thornhill in Moscow

Mr Peter Mostovoi, the newly appointed head of Russia's bankruptcy agency, yesterday pledged to get tough with insolvent companies which "were a sickness in the Russian economy that had to be cured".

Mr Mostovoi said insolvent companies destabilised the economy by absorbing capital that could be more productively used elsewhere and demanded state subsidies which only fuelled inflation. They also contributed to the non-payments crisis, which currently plagues Russian

industry, because of their inability - or unwillingness - to pay their bills, he said. This created considerable cash-flow problems at other healthy companies.

The bankruptcy agency has drawn up a list of 1,400 companies it considers insolvent, with collective debts of Rb14,000bn (\$3.1bn). But the agency's hands have been tied by legal restraints requiring a court order before an insolvent company's management can be replaced. At present, only a company's creditors can generally start insolvency proceedings. Mr Mostovoi was hopeful that the law

would soon be changed, giving the bankruptcy agency more powers.

Yet the social consequences of liquidating bankrupt companies could be immense, given that many Russian towns are entirely dependent on one enterprise.

The Russian government, aided by the World Bank, is trying to strengthen the social safety net to cope with these problems.

Mr Basso Molinens, director of operations at the World Bank in Moscow, said as much as \$1bn of bank funding could be forthcoming to back projects to relocate and

retrain workers and enable them to find alternative jobs.

"There are all kinds of political, economic and social reasons for supporting this type of activity. I think we can move very quickly in this area when there are projects in place," he said.

The Russian privatisation centre has also launched a two-year initiative to help support social infrastructure shed by privatised companies. Some companies have simply transferred responsibility for former company schools and housing to local authorities, which do not always

have the financial strength to maintain them. The federal employment service yesterday said that the number of unemployed rose by 75,000 in February.

There are now 1.71m people officially registered as unemployed in Russia, although that figure would be several times higher using the International Labour Organisation's counting methods.

Even so, Mr Fyodor Prokopenko, director of the unemployment service, forecast that the number of officially registered unemployed could rise to 16m by the end of the year.

## Winds of market buffet old Soviet dream

Christia Freeland visits Russia's largest car maker founded in planning and left to economic chaos

**A**vtovaz, Russia's largest car manufacturer and producer of the Lada, has always been a good barometer of the health of the Russian economy. As Avtovaz's director, Mr Vladimir Kadannikov, likes to put it "what's good for Avtovaz, is good for Russia".

But Avtovaz is no General Motors. On the contrary, it is a very Soviet factory, born more than a quarter century ago in the heady days when Soviet planners still dreamed that communism would bury capitalism. Part of that dream was the creation of a "communist car", and so the planners decided to build one of the world's biggest car plants from scratch.

That factory was Avtovaz, which employs more than 100,000 workers and in its heyday produced nearly 750,000 cars a year, of which about 40 per cent were sold abroad. Although Avtovaz's size made it one of the giants of the planned economy its focus on consumer goods and extensive export experience made it better prepared than most Soviet industrial behemoths when the country began its halting transition to a market economy.

In contrast with other leading manufacturers, such as ZIL, the Moscow car and truck factory where a financial crisis has in effect shut the plant, Avtovaz is still producing cars, albeit nearly 30 per cent fewer than in the halcyon days of communism. But the factory's future remains uncertain.

As Mr Kadannikov, one of



Avtovaz is no General Motors. On the contrary, it is a very Soviet factory which was established just over 25 years ago

Russia's most influential industrial barons, puts it, "I can never tell whether we've just managed to avert collapse a little bit longer than other factories or if we've really found a way to survive."

Avtovaz is in trouble because it has not managed to free itself from the traditional burdens which the Soviet system imposed on factories but, at the same time, is being forced to cope with new difficulties created by the collapse of central planning.

For Avtovaz, the heaviest legacy of the old system is a bloated workforce and an expensive social infrastructure. Togliatti, where the plant is situated, is a one company town. Because more than a quarter of the population is directly employed by Avtovaz

and most social services are provided by the factory, Mr Kadannikov feels a responsibility that goes beyond his factory's gates.

Thus, while some Russian factories have shed between a third and a half of their labour force in an effort to become more efficient, Avtovaz last year cut less than 5 per cent of its staff.

The only catch to this corporate compassion is that, with the demise of central planning, Avtovaz is today unable to afford the feather-hedding which was a standard Soviet practice. Reluctant to fire workers, but unable to pay them, Avtovaz last year simply paid its workers late. But this common Russian solution backfired when workers on the main assembly line went on

strike last autumn, costing the company Rb40bn.

These structural scars which Avtovaz bears from its Soviet past have been inflamed by a series of new problems.

One of them is Russia's paralysing web of inter-enterprise debt. In the Soviet economy, money was an insignificant feature of a system in which distribution was determined by the dictates of central planners. Although the central plan has fallen apart, many factories stuck to the old ways, shipping their products with little regard for payment.

To break out of the resulting network of crippling inter-factory debt, many Russian enterprises today demand pre-payment before shipping goods. As Mr Kadannikov explains, this new practice is particularly

onerous for Avtovaz, because it cannot, in turn, demand pre-payment for the cars it produces.

Avtovaz's relationship with its suppliers has become so entangled that, in a perverse Russian version of "just-in-time" supply management, the factory must regularly fly in parts by helicopter to keep the assembly line going.

But for Avtovaz the single biggest worry is inflation. Savings which could buy a car in the late 1980s today barely cover the price of a Big Mac.

To get around this erosion of public savings, Avtovaz is introducing a financial instrument designed to allow consumers to save for a car without losing their money to inflation. Avtovaz is issuing warrants, whose value is tied

to the cost of the various car models the factory produces.

One type of Avtovaz warrant is worth one-eighth of the value of a Lada. Would-be car buyers will be able to accumulate their savings in the form of these warrants, and after they have acquired 18 will turn them over to a Lada dealer in exchange for a car. Avtovaz pledges to buy back the warrants at any time for their cash value calculated on the basis of the current price of a Lada.

Clever financial schemes such as this are the basis of Avtovaz's reputation as one of the most market-oriented of the former Soviet industrial giants. Likewise, Mr Kadannikov admits that one of the decisions to which Avtovaz owes its continued survival is its move to diversify into the financial sector through the establishment of Avtovazbank, one of Russia's largest banks in which the car-producer holds a large stake.

While his high-tech office, retinue of leather jacketed bodyguards and penchant for Marlboros suggest Mr Kadannikov has adopted the tribal markings of Russia's nouveau riches, he is a reluctant initiate.

"Unfortunately, today it is easier to make money in the financial markets than by manufacturing," Mr Kadannikov observes sadly. The wild world of Russian finance, where huge fortunes have been made overnight, has been good for Avtovazbank - but Mr Kadannikov is not sure it has been good for Russia.

# How far do you have to go to keep up with technology?

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**HANNOVER MESSE '95**

**3rd - 8th APRIL**







# Tokyo on alert to contain Barings fall-out

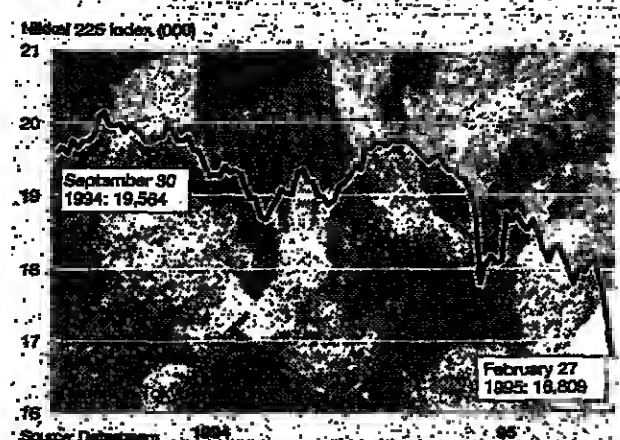
Stock market linked directly to real economy, writes William Dawkins

As the Japanese government yesterday rushed to financial damage limitation, after the sharp fall in share prices triggered by Barings' crisis, the health of Japan's real economy is more closely linked to that of the Tokyo equity market, down 3.8 per cent to a 14-month low yesterday, than is the case in other leading industrialised countries.

Japanese banks, life insurers and industrial companies hold uniquely large equity portfolios to bolster their own capital, to fund risk investments and to provide income in thin times. But yesterday's market fall was "not the result of confidence in the Japanese economy being shaken," said Mr Kozo Igarashi, chief cabinet secretary. The share price decline was "deviating from economic reality," added Mr Tominaka Tsutomu, vice-minister - the top bureaucrat - at the Ministry of International Trade and Industry.

Private sector equity analysts, by contrast, warned that if the market fails to recover or falls further by the end of March, when most Japanese companies close their accounts, Tokyo share prices

The shares slide in Tokyo



may shape economic reality rather than deviate from it. Even before the Barings crisis, the financial year to the end of March was already proving tough for Japanese financial institutions, which unusually have lost money in all the main markets in which they invest. Banks are the first and most

important link in the chain reaction. Their direct exposure to Barings' losses is thought to be negligible, because the bank's rogue trader was dealing directly with the Osaka and Singapore exchanges, rather than with another financial institution. There will, of course, be an

indirect impact on all the members - both banking and industrial - of those stock exchanges. They may have to pay an additional share of Barings' as yet unquantified losses. If the collateral they paid to join those markets proves inadequate to cover the shortfall, there may also be pressure for a rise in such entry payments, as a result.

But for Japanese banks, the main risk is in the reduction of unrealised capital gains on their equity portfolios, caused by the decline in the stock market. According to Ms Alicia Ogawa, financial analyst at Salomon Brothers Asia, Japan's top 21 banks funded 60 per cent of their loan write-offs last year by selling shares.

Clearly, banks' ability to raise money to write off bad loans, rebuild their balance sheets and so increase lending would be retarded by a sustained stock market fall. Shortage of liquidity is already a constraint on Japan's economic recovery, as underlined yesterday by the Bank of Japan's latest report on com-

mercial bank lending, down 0.4 per cent at the end of December from the same month a year earlier.

Leading Japanese banks' officially reported average capital adequacy ratios, the main measure of their power to lend, stands at 8.75 per cent of risk weighted assets, comfortably above the 8 per cent minimum set by the Bank for International Settlements. Yet the Japanese BIS ratio is widely thought to be artificially high, due to Ministry of Finance leniency in allowing banks to overstate their capital. If Japan's inflated BIS ratios were to slip, the ministry would become nervous, predicts Salomon's Ms Ogawa.

Japanese companies measure unrealised stock gains twice a year, at the end of September and the end of March. They must account for equity holdings at the lower of book or market value. So banks will start to book equity losses if the Nikkei is still below its end of September level, around 17,400, on March

31. It closed yesterday at 16,808.

Industrial companies form the next link in the chain. Their bad debts are much less of a problem than for banks, so the main industrial consequence of a weak equity market is to reduce securities gains, set to be worth an estimated 4 to 5 per cent of net profits this year, according to Mr Jesper Koll, head of research at the Tokyo office of JP Morgan, the US bank.

If the Tokyo stock market sticks at this level, he forecasts that listed companies' average net corporate profits will rise by 11 or 12 per cent in the year to March, rather than the previously estimated 15 to 16 per cent.

By the same token, this puts 1994-1995 earnings on a lower base from which corporate Japan can report a recovery next year. That, of course, assumes the chain reaction stops where it did yesterday. All in the Tokyo financial markets were keeping their fingers crossed, with little assurance, that the initial panic is over.

## ASIA-PACIFIC NEWS DIGEST

### Singapore has 10.1% growth

Singapore's economy grew 10.1 per cent in 1994, the ministry of trade and industry disclosed yesterday. Growth was spearheaded by manufacturing, which rose 13 per cent against 10 per cent in 1993. Growth in financial and business services slowed last year to 9 from 13 per cent. Total trade grew 16 per cent last year to \$830.4bn (\$132bn), with exports up 53 per cent to \$414.7bn. Foreign and domestic confidence in the economy remains strong: manufacturing investment commitments reached a record \$35.8bn last year, with foreign capital making up 75 per cent of the total.

After two years of double-digit growth, domestic cost pressures have started to increase, the ministry said, highlighting wage rises and a slowdown in productivity growth; signs were that Singapore's manufacturing competitiveness relative to other industrialising Asian nations deteriorated last year. A budget to be unveiled tomorrow is expected to offer small tax cuts. The ministry has revised downwards growth estimates for this year and forecast 1995 growth of 7.5-8.5 per cent. *Kieran Cooke, Singapore*

### Shanghai bond futures scandal

Shanghai suspended free trading in bond futures yesterday and told investors to unwind positions in a move to limit damage from China's biggest market upset. Shanghai International Securities, the city's leading brokerage, is reeling from losses suffered when the bond futures market moved against it. Yesterday's move angered investors, who charge they have been sacrificed in the operation that has frozen China's hottest financial market. *Reuter, Shanghai*

### Bond voted out of bankruptcy

Mr Alan Bond, the Australian businessman (left), was yesterday voted out of bankruptcy by creditors. But he still faces a number of charges next month relating to his 1980s corporate deals. His release from bankruptcy came after a creditors' meeting in Sydney voted to accept payments totalling A\$3.25m to settle debts totalling more than A\$622m (\$226m). The agreement provides for creditors to receive A\$1m immediately, with the balance in yearly instalments of A\$750,000. The vote, which required a 75 per cent majority, was taken despite urgings from Mr Bond's bankruptcy trustee, Mr Robert Ramsay, for more time to study documents. *Bruce Jacques, Sydney*

Mr John Hewson, the economist whose fiscal policies led Australia's opposition to unexpected defeat at the 1993 election, quit politics yesterday, saying he could no longer make a worthwhile contribution to political life. *Reuter, Canberra*

Japan's household spending in December decreased 3.1 per cent in real terms from a year earlier, the government's Management and Co-ordination Agency said. In nominal terms, spending fell 2.6 per cent. *Reuter, Tokyo*

China posted a \$2.69bn (\$1.7bn) trade surplus in January, against a deficit of \$533m in January 1994 and a surplus of \$55m in December. *Reuter, Beijing*

Bangladesh GDP will grow 5.5 per cent in the year to June, Mr Khorsed Alam, central bank chief, said. *Reuter, Dhaka*

## Plan to make financial sector more competitive

### Thais to aim for freer markets

By William Barnes in Bangkok

The Thai cabinet is today expected to approve an ambitious master plan for the finance industry that promises towards the end of the century a markedly freer, more vibrant and potentially more influential financial centre.

The main thrust of the plan is to encourage the financial sector to become more competitive and sophisticated - even if this means that weaker institutions must merge into their stronger rivals.

The plan promises that up to five more bank licences will be handed out to qualified finance companies early next year, but at the same time urges financial institutions to consider merging to create stronger entities.

"The plan is important because it gives all of us something to focus on - these benchmarks will make us keep moving ahead with our reforms," said Mr Tarrin Nimmanrattana, the finance minister.

It seeks to strengthen laws and supervisory agencies covering the industry in an attempt to forestall or ease future market upsets or collapses by financial institutions.

Mr Graham Catterwell, the country representative for stockbroker Crosby Research, said: "You would be hard pressed to find a similar set of plans in Indonesia or the Philippines. The difference is that the central bank may be the best in the region - they are good, they do think ahead."

The 21 foreign banks with offshore banking licences can compete for the five to seven full branch banking licences that will be issued in May 1996. A total of 14 foreign banks currently have full branch status. More branch licences will be issued later next year.

The number of stockbrokers will rise sharply because all the nearly three dozen sub-brokers who pass the capital adequacy tests will be allowed to become full members of the Stock Exchange of Thailand. Foreigners will still be able to hold only 49 per cent of

a broker's equity. Stockbrokers will in time be allowed to expand their range of services to include factoring, fund management, foreign exchange trading, securitisation and the issue of promissory notes.

The government finally admitted that it will have to issue government bonds to help the young bond market which has been struggling to grow without a benchmark yield curve; the government does not otherwise need to borrow money, having run a budget surplus for seven years.

State enterprises and private corporations are both being encouraged to issue bonds by means such as taxation changes so that bond transactions will no longer attract repeated tax hits.

Thailand will have its own derivatives and over-the-counter markets once the necessary laws have been worked out; in the meantime securities companies and institutional investors will be allowed to try their hand in foreign futures and options markets.

## Japan may resume loans to Indochina

By Michio Nakamoto in Tokyo

Japan is considering resuming yen loans to Cambodia and Laos in an effort to help the region's economic development, "the most important issue" for its lasting peace and prosperity.

The possibility that Japan could resume the loans, suspended for decades due to the political conflicts in the region, was aired at an international ministerial meeting for developing Indochina which closed in Tokyo yesterday.

The meeting, hosted by Japan and attended by representatives of Australia, the UK, France, Germany, the European Commission, the Asian Development Bank and the International Monetary Fund, decided immediate action was needed to help infrastructure and human resources development and national capacity-building in the region.

Participants expressed their commitment to helping Cambodia, Laos and Vietnam in their economic devel-

opment for which the promotion of trade and investment "is absolutely essential," a joint statement said.

Japan stressed its commitment to assisting Indochina in its infrastructure development, "the most important issue" for its lasting peace and prosperity.

Japan has halted yen loans to Cambodia and Laos since 1968. While political instability was a large factor, Cambodia has failed to settle outstanding repayments. Cambodia would have to repay these loans, and the two governments have started discussions on how those repayments could be made, a foreign ministry official said. Laos does not have any payment obligations it has not fulfilled.

Japan has since extended considerable humanitarian aid to Cambodia. From 1992 it resumed grant aid, which last year amounted to Y8.4bn (\$54.6m).

Grant aid to Laos amounted to almost Y5bn.

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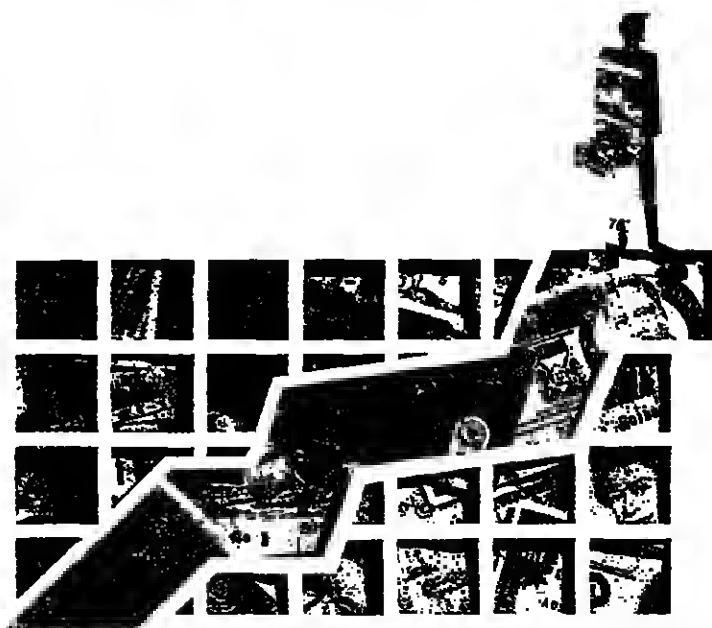
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## NEWS: WORLD TRADE

## Fresh drive to end WTO deadlock

By Frances Williams in Geneva

A fresh attempt to resolve the long-standing impasse over the head of the World Trade Organisation will be made by Sir Leon Brittan, European Union trade commissioner, and his US counterpart, Mr Mickey Kantor, this week as the March 15 deadline looms.

In spite of official denials, there are increasing signs that Washington is preparing to abandon its preferred candidate, Mr Carlos Salinas de Gortari, the former Mexican president, who is seen as having no chance of winning the three-way contest.

Mr Salinas, whose campaign was dealt a serious blow by the Mexican financial crisis, is backed by only 28 of the 116 countries canvassed in the most recent round of consultations. The EU candidate, Mr Renato Ruggiero, has 57 votes and Mr Kim Chul-su of South Korea has 29.

The US administration moved at the weekend to quash the earlier suggestion by the US WTO ambassador that all three candidates stand down in favour of someone new. After discussions with European Commission president Jacques Santer, Mr Al Gore, US vice-president, said: "We support the current process. We do not call on all the candidates to withdraw."

Mr Ron Brown, US commerce secretary, later denied US newspaper reports that Washington was looking for a graceful way to ditch Mr Salinas. "We think he's the best candidate," Mr Brown told reporters in Brussels where he and Mr Gore attended the Group of Seven information technology conference.

EU officials in Geneva said yesterday that they would be pressing for a decision ahead of March 15 when Mr Peter Sutherland, the current WTO head, is due to leave. They indicated they would oppose any move to ask him to stay on, even if that meant an interim term.

The EU believes that, if Mr Salinas could be persuaded to withdraw, much of his support would gravitate to Mr Ruggiero, giving the former Italian trade minister the basis for an eventual consensus.

Though Washington has never evinced much enthusiasm for Mr Ruggiero, US officials have always been careful not to threaten a veto. If the EU candidate were to win the backing of most WTO members, it would be politically difficult for Washington to block his appointment, trade officials say.

● Sir Leon Brittan, the EU trade commissioner, said yesterday that he wanted the WTO post to be filled by one of the three existing candidates.

## A 'maturing' marks copyright deal

US officials detect more businesslike Beijing with hopes for future, writes Tony Walker

Ms Charlene Barasch, the US deputy trade representative, described the copyright agreement reached between Washington and Beijing on Sunday as "historic".

Ms Wu Yi, China's trade minister, said it was "very important" to Sino-US relations.

US officials involved in the "nitty gritty" negotiations of the way these trade issues and economic issues will be negotiated in the future.

Officials also noted that the talks appeared to have been relatively unaffected by China's political uncertainties caused by the falling health of senior leader, Deng Xiaoping. "They obviously had a bottom line that had been worked out at a higher level," said one.

Officials disputed an impression that China had reluctantly made concessions. "There was obviously some give and take. They just didn't fall over dead," said one senior negotiator. "In any case there was nothing there that was against their interests."

An early test of any new agreement may come with the resumption of talks on China's application to join the World Trade Organisation, successor to the General Agreement on Tariffs and Trade. Beijing's

attempts last year to become a founder WTO member were marked by an abrupt negotiating approach inappropriate for a multilateral forum.

China's negotiators set an end of December deadline on the settlement on intellectual property rights as the first step to unblocking China's entry into the World Trade Organisation, Caroline Southey reports from Brussels.

A Commission spokesman said: "We welcome it because it removes the threat of a trade war and we will exploit it to open up negotiations on China's entry to the WTO."

But he said, the Commission remained concerned about whether China would implement the deal and whether it would be applied to all China's trading partners.

"Our welcome is predicated on how effective implementation will be," he said.

Further concessions. This ultimatum, which had the effect of locking Beijing into an inflexible position, hardly appealed to Gatt contracting parties.

If in the copyright negotiations self interest dictated a pragmatic Chinese approach a similarly constructive stance would certainly help to overcome an impasse in the talks on WTO entry.

However, compliance with WTO entry rules would oblige China's leaders to confront a

panoply of difficult political issues from liberalising agricultural markets to tariff and quota reductions, beyond those already scheduled. In these circumstances there are no easy choices.

US officials insist that there is no direct link between resolution of the copyright dispute and a resumption of negotiations on China's WTO entry, but they also acknowledge that the issue "was in the background" during the lengthy negotiations that spanned 20 months and nine negotiating sessions.

Indeed, Mr Mickey Kantor, the US trade representative said in Washington that the copyright agreement would "help create a better atmosphere" for the WTO negotiations.

China has not indicated whether it will return to Geneva for a meeting of the "working party" on its WTO entry. Beijing has been demanding that the west, and the US in particular, drop their "exorbitant demands" on accession terms.

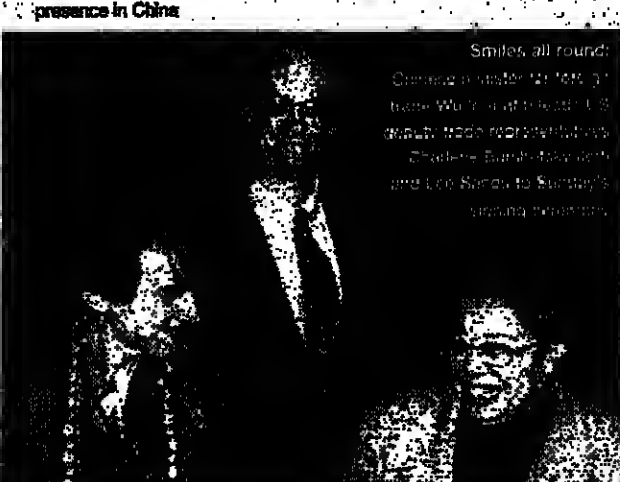
Officials involved in the intellectual property rights negotiations believed that the deal was the most important factor in Beijing's decision to strike a deal was a perception that it was in China's economic interests to do so.

"The real decisions were made on an economic basis, not an ideological one," said an official. "They also understood that IPR enforcement was a necessary part of any society that wished to industrialise."

## China gives way: the main points



- China agrees to:
  - Carry out over three years an enforcement policy on intellectual property rights
  - Set up taskforces in various cities and provinces to curb infringement
  - Field factories involved in illegal manufacturing and retailers selling pirated goods
  - Revolve factories' operating licences for repeated offences
  - Give greater authority to customs officials to halt exports of pirated products
  - Open up its markets to imports of software and audio-visual products and make its censorship policy on imports more transparent
  - Invite US software and audio-visual companies to establish a commercial presence in China



IPR issues would inevitably be involved in agreements signed with other countries on high-tech issues and would therefore have to be dealt with. US officials are hoping that the IPR agreement, with its market access provisions, will be a model for other such access disputes. But they also understand that negotiating with China will almost inevitably bring its share of frustrations. No-one expects Beijing to abandon its attachment to brinkmanship.

## WORLD TRADE NEWS DIGEST

## Caribbean group launch delayed

The launch of a 24-nation trade and economic grouping in the Caribbean Basin is being postponed because of protracted negotiations over the size of the budget, and a delay by some countries in ratifying their membership. The Association of Caribbean States (ACS) was to have been launched at the beginning of this year, but trade officials and ministers now say a delay until at least the second half of the year is now inevitable.

The prospective membership of ACS includes Colombia, Mexico and Venezuela, the central American states (except El Salvador), Cuba, the Dominican Republic and Haiti, and the members of the Caribbean Community (Caricom). With about 15 European and US dependent territories as associate members, the ACS would have a market of about 200m people, and an estimated combined gross national product of \$500bn, and an annual trade volume of about \$180bn, according to Caricom officials.

Only five of the prospective members have so far ratified the convention establishing the ACS. In an effort to jump-start the group, Trinidad and Tobago, where the headquarters will be located, is to set up an interim secretariat. Mr Simon Molina Duarte, a Venezuelan economist, is expected to be confirmed as the group's first secretary general. Caricom governments which have been behind the creation of the ACS are hoping that a ministerial meeting scheduled for Guatemala in May will end with clearer timetable for the group, according to Caricom officials. Plans are already being made for the first ACS summit in Trinidad in August, which will discuss tourism, trade and transport. *Carrie Jones in Kingston*

## Jakarta satellite bid battle

Cable and Wireless of the UK and Germany's Deutsche Telekom are both in the running to buy a stake in PT Satelit Palapa Indonesia (Sahindito), an Indonesian satellite company partly owned by Indosat, the state-controlled telecoms group. The Indonesian company is conducting negotiations with both companies for the sale of a 25 per cent stake. The UK company, which is offering \$550m for the holding, is thought to be the favourite.

A signing ceremony between Satelindo and Cable & Wireless was scheduled for today but was cancelled late yesterday as last-minute negotiations continued. The winner is expected to be announced next week, after the Eid festival marking the end of the holy fasting month of Ramadan. Other bidders include Nynex of the US and France Telecom, but both are considered out of the running.

Satelindo was set up two years ago and is emerging as a competitor to Indosat, which was listed in the Jakarta and New York stock exchanges last year. The two compete in handling international direct calls. Satelindo is jointly owned by Telkom, the state-owned domestic telecoms company, Indosat and Bimagraha Telekomindo, another Indonesian telecoms group. *Mamela Saragosa, Jakarta*

## Contracts and ventures

■ Anheuser-Busch of the US announced yesterday that it had bought an 80 per cent stake in the Zhongde brewery in Wuhan, central China. The US company did not disclose the sum paid for the brewery, which will soon begin producing Anheuser's Budweiser brand. This is the US company's second beer venture in China. In 1993, it bought 5 per cent of Tsingtao, China's largest brewer. Anheuser-Busch plans to rank among the top two brewing groups in China by 2000. Chinese partners in the Wuhan venture include Everbright Trading, the People's Construction Bank and Wuhan Trust and Investment. *Tony Walker, Beijing*

■ Komatsu Singapore, a subsidiary of the Japanese construction equipment producer, is to set up a 50 per cent-owned joint venture, Komatsu Saigon, in Ho Chi Minh City, Vietnam. The project will initially provide product support services and make attachments such as buckets. The assembly of medium-sized hydraulic excavators is planned from 1998. *Andrew Baxter, London*

■ France Telecom said it and Bell Atlantic of the US have made a joint bid for a stake in SPT Telecom, the Czech telecoms operator. The French group said the two companies created a joint company named Telfar, in which Bell Atlantic holds a 55 per cent stake and France Telecom 45 per cent. The Czech government plans to offer up to 27 per cent of SPT capital. *APX, Paris*

■ Ferret International, the Manchester-based producer of MF industrial construction equipment, has agreed a strategic alliance with Hindustan Motors, under which the Indian company will manufacture the Series T backhoe loader under licence. Ferret will supply the main components in the short to medium term. *Andrew Baxter, London*

## Greece struggles to meet gas deadline

Kerin Hope looks at prospects for power plants as pipeline nears completion

Russian and Greek contractors will this month sign the final sections of a \$2.2bn pipeline to carry natural gas from the Bulgarian border to Athens.

The completion of the pipeline, already three years behind schedule, will open the way for a number of public sector power projects - which depend on a regular supply of natural gas - to meet growth in electricity demand approaching 5 per cent a year.

The project is 60 per cent funded by European Union grants and loans from the European Investment Bank.

Political and administrative disputes in Greece have long delayed the construction of gas-fired power stations and gas distribution networks, which together are projected to absorb up to 70 per cent of the country's natural gas imports over the next decade.

Nevertheless, Mr Christos Verelis, chairman of Depa, the state gas company in charge of the pipeline project, says Greece can still meet a mid-1997 deadline on a revised "take-or-pay" agreement signed last December with Gazprom, the Russian gas supplier. Under the agreement Greece would receive 1.2bn cu m of gas yearly from

1997, rising to 2.4bn cu m a decade later.

The government says widespread use of natural gas for domestic heating and power generation will help cut pollution levels in cities and reduce the electricity industry's dependence on lignite - locally mined brown coal which is blamed for sulphurous emissions from power stations in the countryside.

The main reason behind the government's delay in awarding contracts for two new gas-fired power stations has been its determination to maintain state control over power generation.

In 1993, the then conservative government awarded a contract to build a 250MW gas-fired plant in Thrace in the north-east to Prometheus, a Greek-Russian joint venture, on a build-own-operate basis. A second 500MW plant was to be built near Thessaloniki in central Greece, close to the main pipeline, on the same basis.

The successor socialist government has since dropped the idea of extending the gas pipeline to Thrace, in favour of building a 150MW lignite-fired plant in western Macedonia. Prometheus would carry out the D125bn (\$30bn) project on a turnkey basis.

The second plant will now be carried

out as a turnkey project, and its location has been shifted from Thessaloniki to Lavrion, south of Athens; it will be linked to the gas pipeline through a 60km extension which Prometheus would build. The Lavrion project, at first private-sector funded, will now be publicly financed by the Public Power Corporation, the state-owned utility.

"The policy change from private to public-sector investment has already caused another two-year delay," says an Athens-based energy consultant. "Even if the PPC completes tendering procedures for Lavrion in record time, it's doubtful it will be ready on time to start taking up its gas quota."

And, in another policy switch, the government has rejected as unworkable a scheme for local authorities to become majority shareholders in new companies that would control the city distribution networks. Instead, Depa will take a majority stake in three new companies, with up to 49 per cent being offered to foreign gas companies which would set up and operate the distribution networks.

This policy reversal has set back construction of city distribution networks in Thessaloniki and Larissa, both situ-

ated close to the main pipeline, and the extension of an existing network in central Athens.

Mr Verelis says: "The local authorities don't have the financial or management resources to run such a complex project. Gas distribution on this scale is new to Greece and we need inputs of technology and know-how."

However, the revised plan for operating the city distribution networks, which forms part of a new framework law for gas awaiting parliamentary approval, is strongly opposed by Depa, the Athens municipal gas company.

Depa, which supplies gas to 9,000 households and commercial outlets through a 500km network in central Athens, operates at a loss. But the company wants to retain control of gas distribution for the greater Athens area when natural gas becomes available later this year.

Mr Kostas Kontides, Depa's general manager, says: "We have Dr80bn in EU funds already approved for extending our network to 5,000km and supplying 300,000 customers. We don't want to be pushed aside and given just a token equity stake in a new company."

## Big appetites boost farm trade

James Harding on the OECD's world forecast for agriculture

Protein-rich diets are spreading and with them the opportunities to sell both meat and feed for livestock to the emerging economies of Asia and Latin America, the engine room of agricultural trade over the next five years.

In its new report on developments in world farming of cereals, oilseeds, meat and dairy products, the *Agricultural Outlook 1995-2000*, the OECD indicates that non-OECD countries with rising populations and growing economies will boost commodities trade.

The dynamic Asian economies, for example, are likely to see increased domestic livestock production, which in turn will boost feed use. Imports of wheat and coarse grains by non-OECD countries (excluding the countries of the former Soviet Union) are projected to rise by 21 per cent and 65 per cent respectively.

Developing countries are expected to account for two-thirds of the 20 per cent increase in world production in response to burgeoning consumption of oilseeds and oil-seed products.

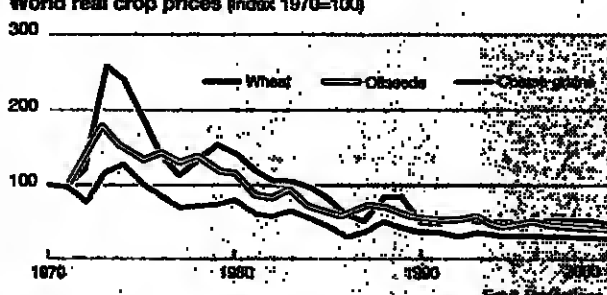
China, a strong cereals grower, is nevertheless expected to develop as a market for cereal imports as a lack of technology and structural changes in the economy puts restraints on production.

As China's importance on world cereal markets grows, that of the countries of the former Soviet Union wanes. The OECD forecasts former Soviet Union demand in cereals and imports to remain at their current low levels.

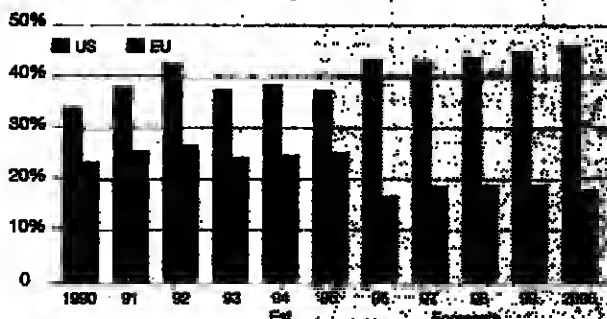
Falling demand in this region, along with the potential for the EU and the US to return to use land that has

## The cereals market 1995 to 2000

World real crop prices (index 1970=100)



Share of total OECD wheat exports



Source: OECD

been set aside, are given as the two factors likely to quell the inflationary pressures of increasing global demand. The annual decline in world market prices in real terms from 1990-93 is expected to range from almost nothing for wheat to about 3.5 per cent for oilseeds.

The report forecasts some significant changes in agricultural trade as a result of diminishing government intervention.

The reform of the EU's Common Agricultural Policy which is expected to have been implemented by 1995-96 is likely to

result in lower exportable surpluses of grain.

The Uruguay Round agreement, which limits subsidised exports, is expected to force a reduction of surplus disposal, although the study warns that its impact over the next five years will be limited. It will, of course, do nothing to limit distortions on domestic markets.

The outlook gives specific forecasts for agricultural sectors.

● Cereals: World cereal trade is expected to increase by 10 per cent between 1995 and 2000 boosted by strong import demand from non-OECD countries. Increasing production

will accompany growing demand, with world output of wheat and coarse grains rising 10 per cent and 13 per cent respectively. Unsubsidised wheat prices will rise by more than 35 per cent in nominal terms from their 1990-93 average, but subsidised exports will grow by less than 10 per cent. Coarse grain prices will rise only 5 per cent in nominal terms.

● Oilseeds: Global demand for the three main oilseeds (soybeans, rapeseed and sunflower seed) is expected to rise also fueling growth in world trade. The price of soybeans is likely to recover from its 1990-93 low, but not return to the 1990-91 level.

● Meat: Rising demand and improved market access will boost the beef trade in the Pacific region, with imports to the US, Japan and Korea all forecast to rise. The beef trade is expected to lift beef prices. The forecast for pig and poultry is upbeat, with feed-grain prices rising only modestly to keep livestock prices competitive. Although European beef stocks are seen rising as a result of low domestic demand, GAP reform is expected to encourage increased EU exports of pig and poultry.

● Milk and Dairy: Countries operating with quota systems will see milk production static or falling and as OECD growth in dairy production slackens, only the US, Australia and New Zealand will show rising output. The recent trends in consumption, with growing demand for cheese and fresh products, is forecast to continue. Butter production is expected to fall. World dairy prices are set to rise in nominal terms due to lower butter and skim milk powder exports.

## INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

Changes over the corresponding periods in the previous year and are positive unless otherwise stated.

UNITED STATES					JAPAN					GERMANY				
Commodity price	Producer price	Wholesale price	Unit labour cost	Real exchange rate	Commodity price	Producer price	Wholesale price	Unit labour cost	Real exchange rate	Commodity price	Producer price	Wholesale price	Unit labour cost	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	101.8	96.6	102.3	96.4	85.0	100.9	95.3	101.4	103.4	116.4	99.9	97.5	103.4	103.6
1987	105.8	100.7	103.9	96.7	76.2	101.8	92.5	103.1	100.6	122.9	100.1	95.0	107.7	107.1
1988	106.8	103.2	107.0	99.1	80.4	102.4	92.3	107.8	98.2	151.0	101.4	96.2	112.3	106.9
1989	115.2	108.5	110.1	101.1	74.8	105.1	94.2	114.0	98.1	123.5	104.2	98.3	117.3	108.0
1990	121.5	113.9	113.8	104.3	73.4	108.4	95.7	120.1	98.3	108.5	107.0	101.0	123.5	110.2
1991	126.8	118.3	117.3	107.8	74.2	111.9	98.8	124.3	101.8	114.6	110.7	103.4	131.2	110.0
1992	130.4	117.7	120.2	108.4	74.0	114.0	95.8	125.6	111.0	116.3	115.1	104.9	130.0	108.7
1993	134.3	119.2	123.1	107.7	70.8	115.4	94.3	128.5	108.9	134.0	118.8	104.3	145.7	125.9
1994	137.8	119.9	120.5	105.1	74.5	116.2	92.8	128.5	108.5	136.5	123.5	104.3	145.7	125.9
1st qtr 1994	2.5	0.2	3.4	-1.0	77.0	1.4	-2.2	2.8	3.7	137.6	3.3	0.2	n.a.	-2.6
2nd qtr 1994	2.4	-0.2	2.8	-2.3	75.8	0.8	-2.1	5.0	0.0	139.9	3.0	0.3	n.a.	-6.8
3rd qtr 1994	2.8	1.8	2.8	-3.4	73.3	-0.1	-1.7	-1.8	-1.1	140.7	3.0	0.6	n.a.	-7.4
4th qtr 1994	2.7	1.3	2.1	-2.7	72.0	0.8	-1.1	2.5	-	139.9	2.8	1.3	n.a.	-
January 1995	2.5	0.2	3.7	-0.8	77.0	1.4	-2.2	1.8	5.1	139.4	3.4	0.2	-	-5.0
February 1995	2.5	0.2	3.7	-1.5	76.4	1.8	-2.2	2.4	2.6	139.4	3.1	0.8	-	-2.5
March 1995	2.4	-0.4	2.8	-1.7	76.4	1.8	-2.2	1.8	0.9	141.2	3.1	0.1	2.5	-6.8
April 1995	2.8	-0.4	2.8	-2.7	75.9	0.5	-2.0	1.0	0.0	139.1	3.0	0.4	-	-8.2
May 1995	2.5	0.1	2.8	-2.5	75.9	0.5	-1.8	9.1	-0.8	138.3	3.0	0.4	-	-7.6
June 1995	2.3	0.8	2.8	-2.5	73.4	0.5	-1.8	0.8	-42.4	138.3	3.0	0.4	-	-10.8
July 1995	2.8	1.9	2.8	-3.8	73.8	-0.2	-1.7	-0.9	-3.3	140.9	3.0	0.7	-	-4.0
August 1995	3.0	1.5	2.7	-3.8	72.6	0.2	-1.5	3.3	-0.8	140.3	3.0	0.7	-	-7.2
September 1995	2.6	1.0	2.7	-3.2	71.2	0.2	-1.2	3.8	-3.2	138.8	2.8	1.0	-	-10.0
October 1995	2.7	1.3	1.8	-3.2	71.6	1.1	-1.2	3.7	-3.1	138.8	2.8	1.0	-	-
November 1995	2.7	1.7	1.8	-2.8	73.1	0.5	-0.8	1.5	-	138.8	2.8	1.6	-	-
December 1995	2.8	1.8	1.8	-2.8	73.1	0.5	-	-	-	138.8	2.8	1.7	-	-
January 1996	2.8	1.8	1.8	-2.8	73.1	0.5	-	-	-	138.8	2.8	1.7	-	-

FRANCE					ITALY					UNITED KINGDOM				
Commodity price	Producer price	Wholesale price	Unit labour cost	Real exchange rate	Commodity price	Producer price	Wholesale price	Unit labour cost	Real exchange rate	Commodity price	Producer price	Wholesale price	Unit labour cost	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	102.5	97.2	104.5	101.8	103.4	106.1	100.2	104.8	102.7	101.3	103.4	101.4	100.0	100.0
1987	105.9	97.9	107.8	100.0	104.3	110.1	100.2	111.8	105.5	102.0	107.7	104.9	118.3	106.8
1988	108.8	102.6	111.1	104.1	105.9	116.5	102.9	115.2	107.2	101.2	108.0	106.7	126.2	109.5
1989	112.5	106.4	115.4	105.2	99.8	124.2	118.1	126.6	112.3	103.6	112.7	103.9	137.2	114.4
1990	116.8	107.1	120.5	108.8	103.6	124.8	117.8	134.7	114.8	106.2	133.3	121.0	122.7	102.6
1991	120.2	105.8	122.6	110.3	103.7	140.3	118.9	145.5	138.5	101.8	148.1	127.5	162.4	121.3
1992	126.1	104.0	130.3	115.6	105.8	147.7	124.0	155.3	139.2	105.5	141.2	127.5	162.4	121.3
1993	126.6	101.1	133.7	118.1	106.5	153.9	128.7	161.3	138.5	87.3	148.7	136.7	173.1	133.9
1994	127.7	102.5	138.7	108.0	107.0	160.2	135.5	167.0	138.5	85.5	152.4	140.1	188.4	134.6
1st qtr 1994	1.7	-1.5	n.a.	0.0	107.5	4.0	3.5	4.3	85.2	2.4	3.3	4.8	1.9	97.7
2nd qtr 1994	1.7	0.1	n.a.	0.1	107.4	4.0	3.1	4.1	87.4	2.6	2.2	4.4	-1.1	97.7
3rd qtr 1994	1.6	2.0	n.a.	0.1	106.5	3.7	3.5	4.1	86.4	2.6	2.1	4.4	-1.9	95.5
4th qtr 1994	1.5	2.3	n.a.	0.0	106.5	3.8	4.6	2.9	94.0	2.6	2.5	5.2	-0.6	96.5
January 1995	1.8	n.a.	-	n.a.	106.9	4.2	3.8	4.3	n.a.	85.5	2.4	3.4	4.4	1.8
February 1995	1.8	n.a.	2.1	n.a.	107.9	4.2	3.2	4.5	n.a.	84.9	2.3	2.8	5.3	2.3
March 1995	1.7	n.a.	-	n.a.	106.5	4.1	3.0	4.6	n.a.	87.8	2.6	2.2	4.7	0.7
April 1995	1.7	n.a.	-	n.a.	106.4	4.0	3.0	4.6	n.a.	87.5	2.5	2.1	4.3	0.6
May 1995	1.8	n.a.	2.4	n.a.	107.4	3.7	3.8	4.6	n.a.	86.6	2.6	2.1	4.3	-1.5
June 1995	1.7	n.a.	-	n.a.	106.4	3.8	3.2	3.1	n.a.	85.1	2.6	2.1	4.3	-1.5
July 1995	1.7	n.a.	-	n.a.	106.7	3.7	3.5	3.2	n.a.	88.0	2.4	2.2	4.2	-1.4
August 1995	1.8	n.a.	2.4	n.a.	108.9	3.7	3.8	2.9	n.a.	84.7	2.6	2.3	4.6	-1.5
September 1995	1.7	n.a.	-	n.a.	105.1	3.8	4.3	3.0	n.a.	85.0	2.2	2.3	4.6	-1.5
October 1995	1.8	n.a.	-	n.a.	106.4	3.7	4.6	3.0	n.a.	84.0	2.4	2.3	4.9	-1.7
November 1995	1.6	n.a.	-	n.a.	107.9	4.1	5.4	3.0	n.a.	83.2	2.9	2.8	5.8	-0.7
December 1995	1.7	n.a.	-	n.a.	107.9	3.9	5.3	3.0	n.a.	83.2	2.9	2.8	5.8	-0.7
January 1996	1.7	n.a.	-	n.a.	107.9	3.9	5.3	3.0	n.a.	83.2	3.3	3.4	-	-



Letter from leading Conservative outlines 'low-key' strategy for undermining EU safeguards

# Minister intends to dilute job protection

By Robert Taylor, Employment Editor

A confidential letter in the possession of the Financial Times reveals that the government is working behind the scenes with other European Union countries to dilute workers' legal safeguards covered by the EU's acquired rights directive.

The directive aims to protect workers' job conditions when a business changes hands, as well as in the contracting out of services and compulsory competitive tendering. But it has caused severe difficulties in a number of EU countries and the European

Commission is looking at ways of revising it.

Mr Michael Portillo, the employment secretary, warns in his letter to Mr Douglas Hurd, the foreign secretary, that the "consensus" emerging in Brussels to revise the 1977 directive remains "fragile". Mr Portillo, sometimes seen as a contender to succeed Mr John Major as leader of the Conservative party, says the consensus could collapse if it became publicly known that Britain was playing an active role in diluting the directive.

"There is undoubtedly some suspicion of the UK's motives or of being seen to be allied to the UK, even

among those countries which broadly share our objectives," says Mr Portillo. "To overcome this we have deliberately maintained a low profile in the early negotiations [over revising the acquired rights directive]."

"I believe our prospects for achieving success will be enhanced if we continue this low key approach, keeping discussion on a technical plane and aiming to present our ideas wherever possible through the EU presidency," he adds. "For the same reason I believe we must be cautious about any public statements on this issue, which will undoubtedly be reported back to the Commission and others."

Any revision of the 1977 acquired rights directive needs unanimous approval by member states. In his letter to Mr Hurd, dated November 4, Mr Portillo expresses optimism that the argument is going the Conservative government's way. "The initial discussions in Brussels have been quite encouraging," he writes. "Most member states share our view of the commission's text on contracting out is too vague and leaves too much scope for interpretation by the European Court of Justice and national courts."

"The Commission has shown a surprising willingness to consider alternative approaches and no one has

argued against the principle behind the exclusion [from the directive] of contracting out of activities. Some, however, notably Belgium, Denmark and Greece, have expressed general reservations about amending the directive. In particular they are concerned about making changes which appear to reduce worker protection," Mr Portillo says.

He warns: "It remains to be seen how far they will go along with others, but we must recognise the consensus which has emerged is a fragile one and negotiations will need very careful handling, particularly as unanimity is required."

## Company accepts European works deal

By Our Employment Editor

Coats Vytella, the UK textile and clothing conglomerate, has signed a European works council agreement covering its 34,000 employees across the continent, it was announced yesterday. The agreement will cover the 27,000 Coats Vytella employees in the UK.

This is the first such deal in the European textile industry and comes after nine months of negotiation between the company and the main European textile and clothing unions.

Coats Vytella is the second UK company to create a works council under a European Union directive. The first was United Biscuits, the food conglomerate, last November.

Mr Neville Bain, Coats Vytella chief executive, said it was "a sensible agreement which will be of competitive advantage to Coats Vytella". He added: "We have taken a pragmatic and appropriate decision. The company will benefit from this. It will be good for all our employees across Europe to realise they are part of one group."

The new agreement was welcomed by Mr Bill Morris, general secretary of the Transport and General Workers' Union. "It is satisfying to know UK companies with operations across Europe are taking their responsibilities towards all their employees seriously despite the government's opt-out from the social chapter", he said.

"There should be no distinction between UK workers and those in the rest of Europe," Mr Morris added. "Well co-ordinated companies like Coats Vytella should seek to ensure divisions are not created between UK and other EU employees. Companies with good industrial relations will increasingly find the UK government's position untenable and impractical."

Mr Peter Booth, the joint union co-ordinator who signed the agreement, said the TGWU was in discussion with other companies, and he expected further works council agreements in the textile and clothing sectors.

The Coats Vytella agreement will lead to a two-tier structure of consultation. There is to be a group-wide European forum with a membership of not more than 50 employee representatives. This will meet annually to be addressed by the group chief executive and its agenda will be restricted to "major strategic issues", future group plans and "an overall review of immediate past group performance".

But beneath the forum the company has agreed to create divisional committees covering all its main business lines across national frontiers. These will have between 15 and 30 representatives.

The agreement emphasises that the new structures have been "solely introduced to provide an opportunity for effective communications and improve the quality of information". It states that they "will never seek to replace or impinge upon the present bargaining and consultative procedures, mainly with trade unions."

## Backbenchers pile up pressure against premier

By John Kampfner at Westminster and John Murray Brown in Belfast

Conservative Eurosceptics yesterday stepped up pressure on Mr John Major, the prime minister, ahead of tomorrow's Commons debate on Europe as Ulster Unionists reacted angrily to a suggestion that an upgrading of talks was possible with Sinn Féin, the political arm of the Irish Republican Army.

With the result of tomorrow's vote too close to call, the prime minister met party business managers to discuss tactics.

Staff in Mr Major's office refused to be drawn on the outcome of the discussions, saying he was going into the debate "with a lot of confidence". He would take the opportunity to "clear up misunderstandings" over policy towards the European Union, a spokesman said.

Mr Major depends for a majority either on the Ulster Unionists or the nine "rebel" Conservatives excluded from the parliamentary party since December if he is to defeat a Labour motion condemning the government's stand on Europe. The rebels have said they will make their final decision largely on Mr Major's speech setting out the government's case.

In a speech last night, Mr

Michael Spicer, a leading Conservative Eurosceptic, suggested Britain's right of veto in Europe was no longer sufficient to safeguard the national interest.

Introducing a manifesto by a pan-European centre-right group, Mr Spicer called for a series of amendments to the Treaty of Rome to rein in the powers of EU institutions.

The Eurosceptics welcomed a foreword to their pamphlet by Mr Major. Mr Robin Cook, Labour's shadow foreign secretary, said it showed the prime minister was "pandering to the Eurosceptics in order to save his skin in the vote".

Government and opposition whips were largely discounting the significance of a separate debate last night - approval of an annual economic report for the European Commission.

The government's needs were not enhanced by an indication from Sir Patrick Mayhew, Northern Ireland secretary, that ministers could take part in current talks with Sinn Féin in a bid to accelerate the decommissioning of IRA weapons.

Mr Ken Maginnis, the Ulster Unionists' security spokesman, said the suggestion was "totally unacceptable". The Ulster Unionists said on Friday that the framework document had in effect severed their relations with the Conservatives.



The Institute of Chartered Accountants in England and Wales, with more than 100,000 members worldwide, is combating images of the profession as aloof and expensive. It is using posters with the slogan "It's easier to sleep with a chartered accountant". Clive Parfitt (left), institute commercial chairman, and Roger Lawson, president, helped put up one of the 350 posters

## Nation 'lagging in aircraft projects'

By Michael Skapinker, Aerospace Correspondent

The failure of successive UK governments to commit themselves fully to the Airbus Industrie consortium could result in the aerospace sector losing £17.5bn (£27.8bn) of business by the year 2010, according to a study published yesterday.

The study, by academics from the University of the West of England, warns that the industry will face further damage if the government shows insufficient commitment to the proposed Future Large Aircraft (FLA) military transport.

The study follows the government's announcement in December that it would buy 25 US-made Lockheed Hercules aircraft, but that it could still purchase between 40 and 50 FLA transporters. The government said it would rejoin the FLA programme at the end of its feasibility phase provided it was managed on a commercial basis.

Officials of other European governments and aerospace executives have said the UK government's lukewarm support for the FLA casts doubt on British Aerospace's future as an Airbus partner and its role as the wing-manufacturing specialist in the consortium.

Yesterday's report was commissioned by the Western Development Partnership, a public and private sector body promoting the Bristol area, where BAe's Airbus division has its headquarters.

The study says the UK will continue to pay the price for its decision to withdraw from the Airbus project in 1969 for many years. The UK was to have had 37.5 per cent of the Airbus work. When the UK rejoined Airbus in 1978, it was with only 20 per cent.

The study estimates that the resulting loss of business was £2.5bn between 1978 and 1993. It adds: "However, the much greater impact of failure to enter in 1969 will be evident during the period 1994-2010, based upon market share predictions, the shortfall in income is calculated to be in excess of £15bn."

## Nuclear waste rules may tighten

By Our Resources Staff

The government may tighten a rule governing the shipment of nuclear waste sent for reprocessing in the UK. The move on "substitution" affects reprocessing contracts, which generally require clients to take back waste reprocessed by British Nuclear Fuels at its Sellafield plant in north-west England.

By measuring the waste it returns in terms of radioactivity rather than volume, BNFL can "substitute" a small volume of highly radioactive waste for a larger volume of lower-level waste. The advan-

tage of substitution is that it reduces the volume of waste to be returned, thus improving the economics of reprocessing. However, it leaves BNFL with a larger amount of waste to dispose of itself.

The British government has so far kept an open mind on substitution while it considers technical reports. But ministers are believed to be increasingly opposed to the practice on environmental grounds. Although no decisions have yet been taken and officials say the subject is still "fuzzy", a conclusion is expected soon.

month, as BNFL's big new Thorp reprocessing plant at Sellafield has recently begun full operation. Thorp, which will process large quantities of nuclear fuel for clients in Europe and Japan, will handle 7,000 tonnes of nuclear waste in its first 10 years, two-thirds of it from outside the UK.

The issue of waste has also become much more sensitive in France and Germany. A BNFL freighter left the French port of Cherbourg last week with the first consignment of waste from the La Hague reprocessing plant for customers in Japan.

Britain and Germany have warned that their countries could become "nuclear dustbins" if large quantities of waste are stored indefinitely. The situation is exacerbated in the UK by the possible implementation of substitution and the fact that there is still no permanent store for high and intermediate level waste.

### Correction

British Nuclear Fuels has not sued Mr Oren Benton, as reported in Saturday's issue of the Financial Times. The action has been taken by Nuclear Electric.

## Garbage disposal industry eager to reach US standards

A whirlwind of international takeovers is stimulating change, says Haig Simonian

The garbage industry has been changing beyond recognition in recent months after a string of takeovers. Analysts believe more will come because the top 10 companies still control only 20 per cent of the business.

Late last year Browning-Ferris Industries of the US started the latest takeover phase by paying £391m (£621.7m) for Atwoods, a sizeable waste group. That followed the £112m purchase by UK Waste, a joint venture between Wessex Water and Waste Management International, of the waste activities of NFC, the transport group. There was also a £212m takeover of Biffa by Severn Trent in May 1991. Wessex Water and Severn Trent are former state water supply authorities. The

takeovers have been accelerated by new players. Lyonnaise des Eaux and Compagnie Générale des Eaux, France's two giant utilities, have been turning their gaze to the UK. Both have subsidiaries now snapping at the heels of the main operators.

However, it is UK Waste that has set the pace. Established in 1981, it has transformed sales totalled £106m in 1994 and are expected to reach about £120m in the following year. Profitability has also proved resilient in spite of price pressures. Although the joint venture does not publish its results, its performance is easy to deduce from Wessex Water's financial statements. Profits amounted to about £20m in 1994.

UK Waste's birth stemmed from a marriage of convenience. When WMI (itself a subsidiary of WMI Technologies of the US) joined forces with Wessex Water, many analysts predicted a rapid demerger, with one partner buying out the other. But although some observers wonder about WMI's ultimate intentions towards Wessex Water, in which it has agreed to buy a 20 per cent holding, the joint venture has marched on.

UK Waste has expanded on the back of the capital resources of its US parent. Apart from NFC, it has acquired for £106m the waste operations of George Wimpey, the construction group, and has made numerous smaller purchases. Mike Wynne, managing director, is confident

that UK waste disposal standards are poised to change after years of virtual neglect. New legislation means landfill operators will soon become responsible for environmental damage from their sites, rather than being able to duck the problem by returning their licences if necessary.

But greater legal responsibility may not be enough, reckons Mr David Boyd, WMI's government affairs manager. A landfill operator can still avoid responsibility by not making proper provision for environmental risks. "What use is it to make an operator liable if it doesn't have the resources to take remedial action?" he says. At worst, an operator could just declare bankruptcy.

UK Waste believes Britain will have to tighten up its landfill policies under pressure from Brussels and, to a lesser extent, US practice. "The Americans are 10 years ahead of us in waste disposal," says Mr Wynne.

Hence UK Waste's emphasis on building new landfill sites to advanced technical standards, rather than just digging holes in the ground.

There are also elaborate measures to collect the methane gas which forms at all landfill sites. At UK Waste's latest units, the methane is used to drive generators.

The company is confident that the market will move in its direction. Some customers, such as the big US companies its parent serves domestically and multinationals in environ-

### UK NEWS DIGEST

## Shell and Esso get go-ahead for North Sea fields

The British government yesterday gave the go-ahead for the £500m (\$791.55m) development of three new central North Sea oil and gas fields by Shell and its partner Esso, the non-US brand name used by US oil company Exxon. The companies will develop Teal, Teal South and Guillemot A, about 175km east of Aberdeen in eastern Scotland, using a tanker converted into a floating production, storage and offtake system. It will be the biggest North Sea project to use such a system.

Such systems have proved a cost-effective way of tapping smaller fields which would be uneconomic to develop using traditional fixed platforms. In the Shell development the wells will be located on the sea bottom, and will be connected to the vessel by flexible pipelines. The combined reserves of the three fields are 90m barrels of oil and 45bn cubic feet of gas. First production is expected by the end of 1996. The government has also approved the development by Phillips Petroleum of the Dawn gas field in the southern North Sea.

Robert Curzine, Resources Staff

## Japanese plants in Europe 'not immune from recessions'

The experience of Japanese manufacturers' European plants over the past few years has shattered the illusion they might be immune from recession, says a report published yesterday. The report in the latest Business Review North says a survey of Japanese manufacturers in Europe from Jetro, the Japanese External Trade Organisation, shows that more than 80 per cent of respondents were affected in 1992 by the European recession and more than half made losses at their European operations.

More than a third had dismissed employees in Europe; similar numbers had been forced to reduce production and had been unable to make further investments. In 1992, the most recent year for which Jetro has analysed financial data, 51.2 per cent of respondents reported a deficit in their European operations. This figure had risen consistently since 1989, when it was 23.7 per cent.

Chris Tighe, Newcastle upon Tyne

## Labour party attacks 'greed' of directors' share options

The opposition Labour party yesterday accused directors of National Grid, the privatised electricity distributor, of "boardroom greed on a massive scale" after claiming that Mr David Jefferies, chairman, stands to gain share option profits of up to £1.8m (£2.9m).

Mr Gordon Brown, Labour's shadow chancellor, said Mr Jefferies, who will receive £359,000 in salary, pension contributions and relocation expenses this year, could boost his income to £2.1m if the Grid were floated by the 12 privatised regional electricity companies, as expected. Mr Brown said a Labour government would end the remuneration "scandal" by requiring utility regulators to question chairmen in public on profit forecasts and boardroom remuneration before setting consumer pricing regimes.

He said a Labour government would legislate for remuneration committees to be directly elected by shareholders, and end the use of tax shelters by treating executive share options as income rather than capital gains.

Kevin Brown, Political Correspondent

## BBC may start international multimedia learning service

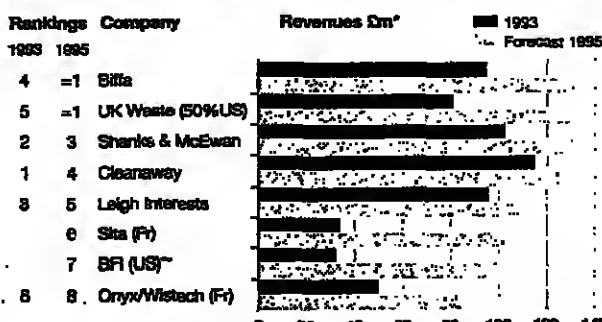
The BBC is investigating the possibility of launching an international multimedia education and learning broadcasting service. Mr Bob Phillips, deputy director-general of the BBC, said yesterday that the corporation was researching the viability of developing such a service with potential partners as part of its commitment to the future multimedia marketplace.

Mr Phillips did not say who the potential partners were, but they are almost certain to include Pearson, the media group that owns the Financial Times and has significant educational publishing interests. The BBC and Pearson have already formed an alliance to launch two satellite channels in Europe, and they have similar ambitions for the US, Raymond Stoddy

## Airline rescue attempt fails

Last-ditch attempts to save British airline Euro Direct have failed and 160 jobs will be lost, it was announced last night. The airline, which flew from four UK airports including London Stansted, had only been operating for 10 months. It claimed high operating costs for its business failure. As well as Stansted, Euro Direct flew from Bournemouth, Exeter and Humberside airports, serving destinations which included Paris, Brussels and Amsterdam. PA News

### UK waste industry



mentally sensitive industries such as chemicals, have been willing to pay its higher prices to gain a clean environmental conscience. "The key is enforcement," says one analyst. "If the government is serious about raising landfill standards, then things will go UK Waste's way. But lax standards will mean others always undercut it."

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## TECHNOLOGY

**Chemotherapy remains central to cancer treatment. Daniel Green and Clive Cookson continue a series by looking at ways to boost its performance and reduce the side-effects**

## Drugs that strike back

The principle of chemotherapy is simple: kill cancer cells with drugs.

It can be effective. In spite of cancer's reputation as an unstoppable killer, about half of all cancer patients receive some chemotherapy and in many cases the disease is cured.

But the practice of chemotherapy is complex and difficult. The way in which drugs work varies and is not always understood. Different kinds of cancer respond differently to treatment; some drugs are more appropriate for solid tumours while others work better in cancers of the blood or lymph system.

There are therefore many different reasons for giving drugs to cancer patients, says Jonathan Lederman, a consultant oncologist at University College London Hospital. A cure may be a clear possibility, but in more advanced cancers the treatment might be intended to reduce the symptoms of the disease to improve quality of life. And sometimes, as in breast cancer, chemotherapy increases the chances of successful surgery.

The first line of attack uses the fact that cancer cells are dividing quickly. The drugs either interfere with the enzymes vital to cell division or with linking of strands of DNA, the molecule that contains the genetic information passed on from one generation of cells to the next.

The first group includes enzyme-based agents such as fluorouracil and the latter the platinum-based drugs such as cisplatin.

More recently, researchers have developed a new generation of cell-killing (cytotoxic) drugs, led by Taxol, derived from yew bark by US drugs company Bristol-Myers Squibb, and its synthetic version Taxotere from Rhône-Poulenc Rorer of France. These interfere with the growing cells' structure of microtu-

bles, although currently they are used in only a narrow range of cancers, notably ovarian.

Unfortunately, cytotoxic drugs also damage growing cells in the lining of the gut and in the bone marrow, which replenishes blood cells. Side-effects therefore include vomiting and weak defences against infection caused by a lack of white blood cells.

The side-effects can be bad enough to tempt patients to abandon treatment, so their control is vital to the success of cytotoxic treatment. Jonathan Waxman, consultant oncologist at the Hammersmith Hospital in London, says that minimising side-effects has become at least as important as treating the cancer directly.

Progress here has been dramatic. Drugs to limit side-effects now work well enough to render Taxol, once renowned for its toxicity, virtually harmless, says Waxman. New drugs include the latest generation of anti-vomiting medicines: Zofran from Glaxo, the UK drug company, and Kytril from its rival SmithKline Beecham.

Then there are drugs designed to offset damage to the blood. Amgen, a Californian biotechnology company, owes its rapid growth partly to Neupogen which stimulates the production of white blood cells.

Many similar drugs are in research. Amgen is working on "stem cell factors" which patients could take before or after chemotherapy to boost the performance

### Anti-Cancer Products: 1994 sales worldwide

BRAND	GENERIC NAME	MANUFACTURER	SALES (\$M)
<b>Hormone</b>			
Nolvadex	tamoxifen	Zeneca	560
Zoladex	goserelin	Zeneca	290
Lupron	leuporelin	Abbott	270
Eulexide	flutamide	Schering Plough	230
<b>Cytotoxic</b>			
Taxol	paclitaxel	Bristol-Myers Squibb	275
Paraplatin	carboplatin	Bristol-Myers Squibb	265
Pharmorubicin	epirubicin	Pharmacia	188
Platinol	cisplatin	Bristol-Myers Squibb	155
Adriamycin	doxorubicin	Pharmacia	140
<b>Enzyme agents</b>			
Vepesid	S-fluorouracil	various	750
Leucovorin	leucovorin	Bristol-Myers Squibb	250
	leucovorin	American Cyanamid	135

Source: Lehman Brothers

of cells that eventually produce both red and white blood cells. British Biotech has a drug which appears to have the opposite effect. It stops stem cell growth during chemotherapy, to prevent damage by cytotoxic drugs.

Side-effects are less important with cancer drugs designed to manipulate hormone levels - an effective treatment in some cancers derived from hormone-sensitive tissues, notably breast and prostate.

The two best-selling brands in the anti-cancer market, Nolvadex and Zoladex from Zeneca of the UK, are in this category. Nolvadex blocks oestrogen, a female sex hormone; Zoladex is a synthetic analogue of LH-RH, a natural hormone which controls several biochemical path-

ways in the body. Zeneca expects to receive regulatory approval this year for a third hormone-based drug, Casodex, which blocks the male sex hormone androgen. But its cancer research "has moved on to new targets, many of which will not respond to hormonal therapy". It wants to develop "direct and specific cytotoxic agents that may have utility in a number of solid tumour types".

Zeneca, like many other drug companies in the cancer area, sees the best way forward as the fine-tuning of cytotoxic agents to make them more precisely targeted to cancer cells. These "magic bullets" will be examined next month.

But neither GSP nor most other alternative treatments have been tested in controlled clinical trials. Many practitioners of alternative medicine make it clear they are offering something other than a treatment for the cancer itself.

"We do not claim to be able to cure malignant disease but expect to be able to offer additional symptomatic help and quality of life support," says The Royal London Homeopathic Hospital. It offers therapeutic massage and leech therapy, which uses a mistletoe extract said to stimulate the immune system.

Where such treatment helps the patient's psychological well-being, its importance should not be underestimated. Mainstream doctors and alternative practitioners agree that a "feel good factor" can prolong life as well as make it more enjoyable.

And the barrier between alternative and conventional treatments may not be watertight. Scotland, a UK pharmaceutical company, has put a drug derived from evening primrose oil through clinical trials with pancreatic cancer patients. It has few side-effects and the results were good enough for Scotland to promise to submit the drug for approval by medicines regulators later this year.

Pharmacia of Sweden is also trying to overcome MDR by combining more than one mechanism of action in a single drug. Karl-Olof Borg, head of oncology R&D, says: "It is still an open question whether it will ever be possible to develop drugs that will prevent any resistance emerging in the long term."

Xenova is also developing, in collaboration with the UK Cancer Research Campaign, a drug called DACA, which was discovered at the University of Auckland, New Zealand. DACA targets two different enzymes, topoisomerases I and II, which are involved in DNA replication. Although DACA's mechanism of action is not clear, cancer cells apparently find it hard to mutate in a way that overcomes resistance to both effects at the same time.

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The feel good factor

Alternative and complementary medical treatments have a special role in cancer.

For many cancers, including late-stage pancreatic, kidney and melanoma, conventional treatment brings questionable benefits. It may only postpone death by a few months, at the cost of side-effects that can make patients' final months much less pleasant than they could be.

Some patients are, understandably, prepared to try something radical, knowing that it is unlikely to be worse than useless.

Some products hold out the hope of a cure. The vendors of Ganoderma Spore Powder, a Chinese "anti-cancer treatment" say that for legal reasons they claim it is "the most effective treatment available" for some cancers.

But neither GSP nor most other alternative treatments have been tested in controlled clinical trials. Many practitioners of alternative medicine make it clear they are offering something other than a treatment for the cancer itself.

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## Tackling resistance to treatment

Drug resistance is the main obstacle to why chemotherapy fails. Most patients respond well when treatment begins but the cancer cells become increasingly resistant to the cocktail of cytotoxic drugs.

Oncologists estimate that multidrug resistance (MDR) becomes a serious problem in 80 to 90 per cent of patients receiving chemotherapy.

"Drug resistance accounts for more than 90,000 of the 160,000 deaths from cancer each year in the UK, so learning to combat it has enormous potential for saving lives," says Adrian Harris, head of the ICRF Clinical Oncology Unit in Oxford.

MDR develops by a similar mechanism to antibiotic resistance in bacteria: genetic mutations give a selective advantage to cancer cells that can protect themselves against chemotherapy. But MDR is more com-

plex and harder to fight than antibiotic resistance. Whereas bacteria normally only acquire resistance to one class of antibiotic at a time, cancer cells often become resistant to all conventional chemotherapy agents. The reason appears to be that even structurally unrelated cancer drugs work in the same way, by damaging the DNA of rapidly dividing cells; antibiotics, on the other hand, attack germs in a variety of ways.

The pharmaceutical and biotechnology industries are making a large research effort to overcome MDR. According to a report by Decision Resources, a US consultancy, the potential worldwide market for MDR inhibitors is well over \$1bn (£600m) a year.

Researchers are finding that some old drugs developed for other purposes - such as BASF's heart drug

verapamil and Sandoz's immunosuppressant cyclosporin A - can make cancer cells more sensitive to chemotherapy.

But the main excitement surrounds new drugs designed specifically to tackle resistance. Although none of these is likely to solve the problem entirely, because several different genes and mechanisms are involved, they are giving encouraging results in early clinical trials.

The favourite drug target is a molecular "pump" which cells use to remove toxic substances, including cancer drugs: the system's main gene (MDR-1) and its product (P-glycoprotein) are known. The most advanced MDR drug in this category is PSC-833 from Sandoz of Switzerland, followed by a group of others including VX-710 from Vertex of the US and XR-1500 from Xenova of the UK.

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**SELECT LIST OF TENDERERS**

The Council is preparing a select list of tenderers for the provision of consultancy services to report on the feasibility of a New Tyne Crossing to be designed, built, financed, maintained and operated under the terms and conditions of the Government's Private Finance Initiative. The existing Tyne Tunnel would be rolled into the OBFMO contract.

Expressions of interest are invited from partnerships which would include consultant bankers and multi-disciplinary civil engineering consultants. The contract is expected to be awarded in June 1995 with completion by November 1995.

The Council is Acting on behalf of the New Tyne Crossing Steering Group whose membership includes North Tyneside MBC; South Tyneside MBC; Tyne and Wear Passenger Transport Authority; Tyne and Wear Development Corporation and the Government Office of North East - hereafter called "the partners".

Following a previous study, chaired by Professor Hills of Newcastle University, the partners have agreed a preferred location for the New Tyne Crossing in the vicinity of the Tyne Tunnel. This study also confirmed the need for a crossing by the year 2001. At this stage no decision has been made as to whether the crossing should be a tunnel or bridge.

The feasibility study will incorporate a review of the findings of the earlier studies; desk studies to appraise the New Tyne Crossing proposal in terms of an economic appraisal of options; legal requirements including the need for a hybrid bill; commercial funding constraints; alternative toll levels; economic development impact; environmental impact; traffic; groundworks; riverworks; alignment; approach roads; land requirements and public transport needs.

The completed study will analyse the various options; identify the projects PF1 viability; identify constraints; quantify risk and environmental impact; advise on further survey work and produce a DfPMD project implementation plan.

The partners have budgeted for a £140,000 outturn cost, exclusive of VAT. It is intended that the tender will be awarded on the basis of an economically more advantageous tender related to quality of service; technical merit; ability to meet delivery dates and quality requirements; price and previous relevant experience.

Expressions of interest, together with the required supporting information, to be submitted by 5pm on 15th March, 1995.

Companies wishing to be considered for inclusion can receive a more detailed briefing pack by contacting: Mr. S. Moore, South Tyneside MBC, Corporate Services Department, Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2NL. Telephone (0191) 427 1717 (Ext. 5016) Fax (0191) 454 5678

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## INTERNATIONAL PEOPLE

Nomura's  
Tonomura  
returns

Hitoshi Tonomura, 56, Tokyo-based head of Nomura Securities overseas operations, is returning to London to chair Nomura's European management committee. He will act as chief executive of the European operations while retaining his current responsibilities. Koichi Kane, 50, continues as chairman of Nomura International and will work with Tonomura on Nomura's strategic direction in Europe.

William H Joyce, 59, president of Union Carbide Corporation, takes over as chief executive on April 28. He replaces Robert D Kennedy, 62, who had the job since 1986.

Daniel Melin has replaced Claude Coppin as chairman and chief executive of Spie Batignolles, the construction arm of France's Groupe Schneider. Coppin becomes honorary chairman.

D Keith Cobb, 53, who has spent 32 years at KPMG Peat Marwick, joins Alamo Bank & Car in May as vice chairman and chief executive. He replaces Michael S Egan, Alamo's controlling shareholder, who remains chairman.

Paul C Reilly, 40, succeeds Cobb as KPMG Peat Marwick's national managing partner of financial services.

Jan-Ake Kark, president of Ericsson's EP Consulting Group, replaces Bengt Halse as president of Ericsson Microwave Systems. Halse has been appointed president of Saab, the recently restructured Swedish defence group.

Michael C Hawley, executive vice president of Gilliatte's international group, president and chief operating officer of The Gilliatte Company, Robert King, group vice president of Latin American operations, replaces him.

Charles Goode, former chairman and chief executive of Potter Partners, deputy chairman of the Australia and New Zealand Banking Group.

Sir Chips Keswick, chairman of Hambros Bank, a director of Anglo American Corporation of South Africa.

John Conde, chairman of Broadcast Investments, a director of Broken Hill Proprietary, Joe M Eron, a former Exxon executive and head of BHP Petroleum's Australian division, president of BHP Petroleum, Europe, Russia Africa

and Middle East region.

Gerald L. Nichols, 59, who joined the Louisville & Nashville Railroad in 1959, chief operating officer of CSX Transportation.

Anthony Clark, 50, finance director of Eagle Star's general insurance subsidiary, chief financial officer of Farmers Group, the Los Angeles insurer. Both companies are subsidiaries of EAT.

Klaus Murmann, chairman of the Sauer-Stundt Group and the Confederation of German Employers Associations, a non-executive director of GKN.

Joseph Neubauer, 63, chairman and chief executive of Aramark, a director of Bell Atlantic.

T J Lim, 38, co-head of Merrill Lynch's global foreign exchange operations, has joined Union Bank of Switzerland in London as head of global fixed income derivatives and currency derivatives. He will report to Hans-Peter Bauer, head of UBS global derivatives in Zurich.

Rebecca Q Morgan, a former Californian state senator and chief executive of Joint Venture-Silicon Valley Network, a director of Pacific Gas and Electric.

Howard Shipley, a director of Amec Building, project director of Hong Kong's \$200m new airport terminal.

John McFarlane, head of Standard Chartered's investment banking operations, has taken on management responsibility for Hong Kong and China. David Moir, the executive director in Singapore, continues to be responsible for East and South East Asia.

Jamie White, formerly Xerox Mexicana's executive director operations, managing director of Ryder de Mexico. Rainer Sandow, former general manager of European hauliers' Lehnkering Montan Europaverk, managing director of Ryder Germany.

International  
appointments

We hope to create in these columns a comprehensive listing of senior appointments in international companies. Please fax announcements of new appointments and retirements to +44 171 873 3262, marked for International People. Set fax to 'fine'.

Few exceptions  
to recovery of aidEUROPEAN  
COURT

The European Court of Justice last week confirmed the European Commission's power to enforce an order requiring a member country to recover unlawful state aids from the recipients. The Court said that, save in specific, exceptional circumstances, no defence was available to a member country that failed to recover aid in breach of a Commission decision under Treaty of Rome state aid rules.

On July 7 1993, the Commission brought Italy before the ECJ under these rules for failing to order the recovery of aid unduly paid to two state-owned companies in the aluminium industry.

The aid had been granted in 1987 to two companies belonging to the EFIM Group - Aluminia and Camsei. In a May 1989 decision, the Commission found the aid was incompatible with the common market and had been given in breach of the procedural rules in the treaty.

The decision required the Italian government to abolish the aid and to recover it from the recipient companies. The Italian government was given two months in which to inform the Commission of the measures it had taken to comply with the decision.

Italy's appeal against the decision was dismissed by the ECJ on October 3 1991. Following an exchange of correspondence instigated by the Commission, the final date for compliance with the decision was set as March 31 1993.

In the absence of any reaction, the Commission brought the present proceedings on the basis that Italy's non-compliance with the decision five and a half years after the unlawful aid was disbursed constituted an infringement of the treaty state aid rules.

Italy did not contest its obligations to comply with the decision. It merely claimed that certain difficulties had hampered implementation of the decision in the context of the winding-up of the state-owned EFIM group. Italy argued that, since the

decision had to be implemented in the context of genuine co-operation with the Commission, account should be taken of the restructuring of the aluminium industry which had been notified to the Commission for authorisation under the state aid rules.

The ECJ granted the Commission a declaration that Italy had breached the treaty state aid rules in the terms requested on the following grounds.

First, it said the decision set out in unequivocal terms the obligation to order recovery of the aid. Second, it confirmed that a member country may not rely on laws or practices in its own legal system to justify non-compliance with Community law. Third, the ECJ held, in accordance with previous cases, that the only defence available to a member country was that it was impossible for it to implement the decision properly.

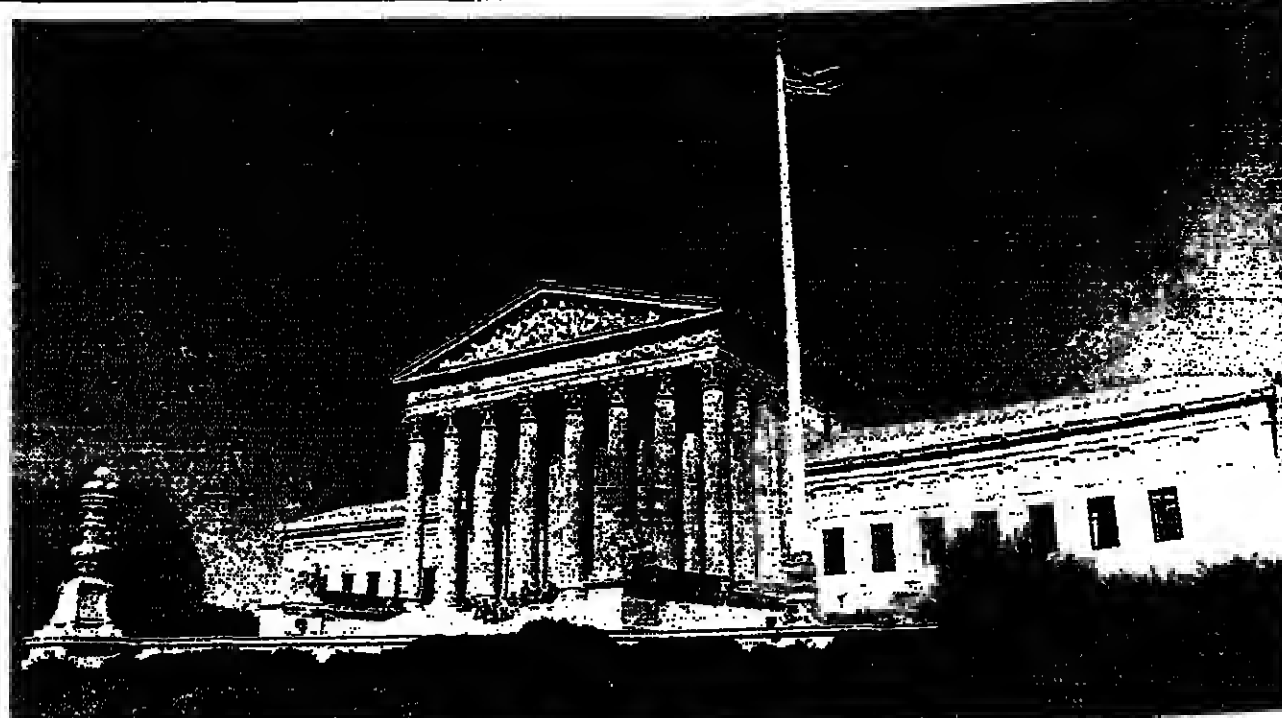
However, the Court added that, if there are unforeseen or unforeseeable difficulties, or consequences overlooked by the Commission, the member country and the Commission must work together in good faith to overcome the difficulties without infringing Community law. In such circumstances, the treaty imposed on the member country and the Commission a duty of genuine co-operation.

In the present case, the Court held that Italy fulfilled none of the exceptions. It merely informed the Commission of the legal and practical difficulties involved in implementing the decision without taking concrete steps to recover aid from the recipients or proposing to the Commission alternatives which could overcome the difficulties.

The general reference to the EFIM winding-up and the notification of new aid to the aluminium industry as part of its restructuring programme was insufficient.

C-349/93, Commission v Italy, ECJ GCII, February 23 1995.

BRICK COURT CHAMBERS, BRUSSELS



The US Supreme Court: the recent indications are that the justices may be inclined to give more scope to state law

An exercise  
in damage  
limitation

Robert Rice on a crucial case  
before the US Supreme Court on  
attempts to curb punitive awards

Attempts by the US business lobby to persuade national and state legislatures to curb large awards of punitive damages have met with only limited success. Some states, such as Virginia, have introduced caps on punitive damages awards.

But efforts to curb levels of punitive damages through the courts have been less successful. The US Supreme Court has considered five challenges to punitive damages in six years and has yet to set a constitutional limit on the size of awards.

Now the Plaintiff Bar is fighting back by attempting to extend the award of punitive damages to arbitrations, an area of dispute resolution generally thought by businesses to be immune from such damages.

Companies which do business in the US are watching a Supreme Court challenge by Antonio Mastrobuono, a Chicago college professor, and his wife, Diana, who are asking the justices to uphold an award of punitive damages by an arbitrator on a contract governed by New York law, which forbids arbitrators from awarding punitive damages.

The origins of the dispute stretch back to 1985, when the Mastrobuonos entered into a securities contract with the now defunct Shearson Lehman Hutton. The Mastrobuonos signed Shearson's standard client agreement. This bound them to arbitration in the case of any dispute and contained a choice of law clause to the effect that the contract, wherever made, was governed by New York law.

In 1987, after suffering heavy losses, the Mastrobuonos closed their account. They alleged misconduct by Shearson, including unauthorised trading and the making of unjustifiable trades to obtain commission. In January 1989 they sued for damages in the Illinois District Court.

The defendants invoked the arbitration clause, opting for arbitration by the National Association of Securities Dealers. The arbitrators awarded the Mastrobuonos \$159,327 in compensatory damages and \$400,000 in punitive damages.

Shearson paid the compensatory damages but petitioned the district court for the award of punitive damages to be overturned. The firm argued the agreement was governed by New York law which prohibits arbitrators from awarding punitive damages. The district court agreed and set aside the punitive award. That decision was upheld by the Seventh Circuit Court of Appeals, and the Mastrobuonos petitioned the US Supreme Court.

The Mastrobuonos main argument was that the Federal Arbitration Act, a 1925 law which governs the enforcement of arbitration agreements, pre-empted a 1976 New York state court ruling which

prohibits arbitrators from awarding punitive damages. They further argued the Seventh Circuit's decision - that the law of a state named in a choice of law clause, rather than the Federal Arbitration Act (which allows the award of punitive damages by arbitrators), determines whether an arbitrator has the authority to award punitive damages - conflicted with decisions on the issue by the First, Eighth, Ninth and Eleventh Circuits.

If the Seventh Circuit decision was allowed to stand, with a similar decision by the Second Circuit, geographic tort law rather than a consistently applied rule of law would determine the remedies available to plaintiffs in arbitrations in the US, they said.

They also disputed the Seventh Circuit's conclusion that, by entering into an agreement containing both a comprehensive arbitration clause and a New York choice of law clause, they had waived any right to recover punitive damages.

If the Supreme Court ruled they could not recover punitive damages in arbitration then, they argued, they should be entitled to bring a separate action for punitive damages in the district court.

In reply, Lehman Brothers, as the successor corporation to Shearson Lehman Hutton, argued the Mastrobuonos had misread the Seventh Circuit ruling. They maintained the Seventh Circuit Court was right in ruling that the agreement to arbitrate excluded punitive damages because the parties had "expressly adopted New York law".

The court's deference to what it saw as the clear meaning of the contract was consistent with the principle stated by the US Supreme Court in the 1989 case of Volt Info Sciences v Stanford University. That was that the policy of the FAA "is simply to ensure the enforceability, according to their terms, of private agreements to arbitrate".

Indeed, Lehman argued, it

was simply wrong to read the Seventh Circuit's decision as reflecting a predisposition to give state law, which is hostile to arbitration, priority over federal legislation.

Lehman said the differing decisions of the various circuits on this issue were simply the result of different interpretations being placed on different agreements by different courts. Since even minor variations in language will influence the interpretation of an agreement, no universal rule as to the effect of choice of law clauses was possible.

Furthermore, after the Supreme Court's decision in Volt, it was beyond dispute that the parties to an agreement were free to decide for themselves what powers, procedures and substantive laws would govern the arbitration of their disputes.

The Mastrobuonos second argument - that alternatively they should be entitled to a trial in the district court to set punitive damages - had no merit, Lehman said.

The Seventh Circuit Court had correctly ruled that, under the arbitration agreement itself, the Mastrobuonos were entitled only to the damages available in arbitration. Also, the district court had already ruled there was no separate cause of action for punitive damages under New York or Illinois law.

To allow the Mastrobuonos a second substantive hearing in the district court to resolve their claim for punitive damages, Lehman said, defeat the purpose of arbitration - to accomplish expeditious and efficient resolution of disputes.

The Supreme Court heard oral argument on the Mastrobuonos petition on January 10 and, according to the US National Law Journal, rather than focusing on the issue of whether the Federal Arbitration Act pre-empted state law, the justices focused many of their questions on possible ambiguities in the Mastrobuonos' contract.

Three of the justices appeared to suggest ambiguities in the contract should be interpreted in the Mastrobuonos favour, the Journal said. On several occasions Justice Ruth Bader Ginsburg raised the possibility that the parties intended that New York substantive law (under which punitive damages are generally available) as opposed to New York case law should govern the contract. Lehman maintained the New York law concerned was substantive law.

Lawyers believe victory for the Mastrobuonos would be a disappointment for US business but not a disaster. Mr Gary Born, a partner of the US law firm Wilmer Cutler & Pickering, says that, if the justices decide state law cannot exclude the award of punitive damages in arbitrations, most companies would still rather have the level of punitive damages set by a panel of arbitrators than by a lay jury.

"Most commercial concerns do not like punitive damages, however awarded them. But the prospect of having a sober-minded panel of commercially experienced arbitrators deciding is less unattractive than punitive damages being set by a lay jury who may be influenced by rhetoric," he says.

Victory for Lehman, on the other hand, would provide a significant boost for arbitration of commercial disputes in the US. Mr Born says any European company doing business in the US would be well advised, if Lehman wins, to specify arbitration for the resolution of disputes in its standard form contracts. "It will give them an extra layer of protection from capricious jury awards," he says.

Predicting how the justices will decide is not easy but, according to Mr Born, a month ago in another case five justices queried the proposition that the Federal Arbitration Act pre-empted state law. Although they did not rule on the point it suggests the court may be inclined to give more scope to state law.

There is also a natural scepticism about punitive damages. "If I had to bet, I would say state law restrictions on the award of punitive damages in arbitrations will be upheld - which would be good news for business."

The only possible "dark lining in this silver cloud", he adds, would be if the court decided state law could be invoked to limit the award of punitive damages in arbitrations but the petitioners were allowed to take the issue of punitive damages to the district court in front of a lay jury.

The prospect of parallel proceedings in such cases at the end of which there was still the chance of a capricious jury award of punitive damages would be the worst of all worlds, he says. Business should know the answer by July.

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ARTS

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# Tippett's 'The Mask of Time'

Sir Michael Tippett's 90th birthday celebrations wound up majestically on Sunday with *The Mask of Time*, his super- or meta-oratorio from 1984. Sir Colin Davis, who had conducted the premiere, directed the London Symphony and their Chorus with tireless flair and every sign of conviction. There was a fervent quartet of soloists - Faye Robinson, Maria Popescu, Thomas Randle and Stephen Richardson - and at the end a standing ovation of great warmth, amid general bemusement.

That was because *The Mask of Time*, grandiose and heaven-storming, is also one of Tippett's most wilfully scatty works. It draws ho-hum on Shelley, Yeats and echoes of Eliot (broadening a careful line as so not to run into copyright problems). Mary Renault and Sir David Attenborough, Akhmatova and the *I Ching*. Amongst many other disparate and unexpected things, it includes a little scene in the garden of Eden with a pet dragon (mezzo-soprano), instantly reminiscent of Thornton Wilder's *The Skin of Our Teeth*. There seems to be time for practically anything.

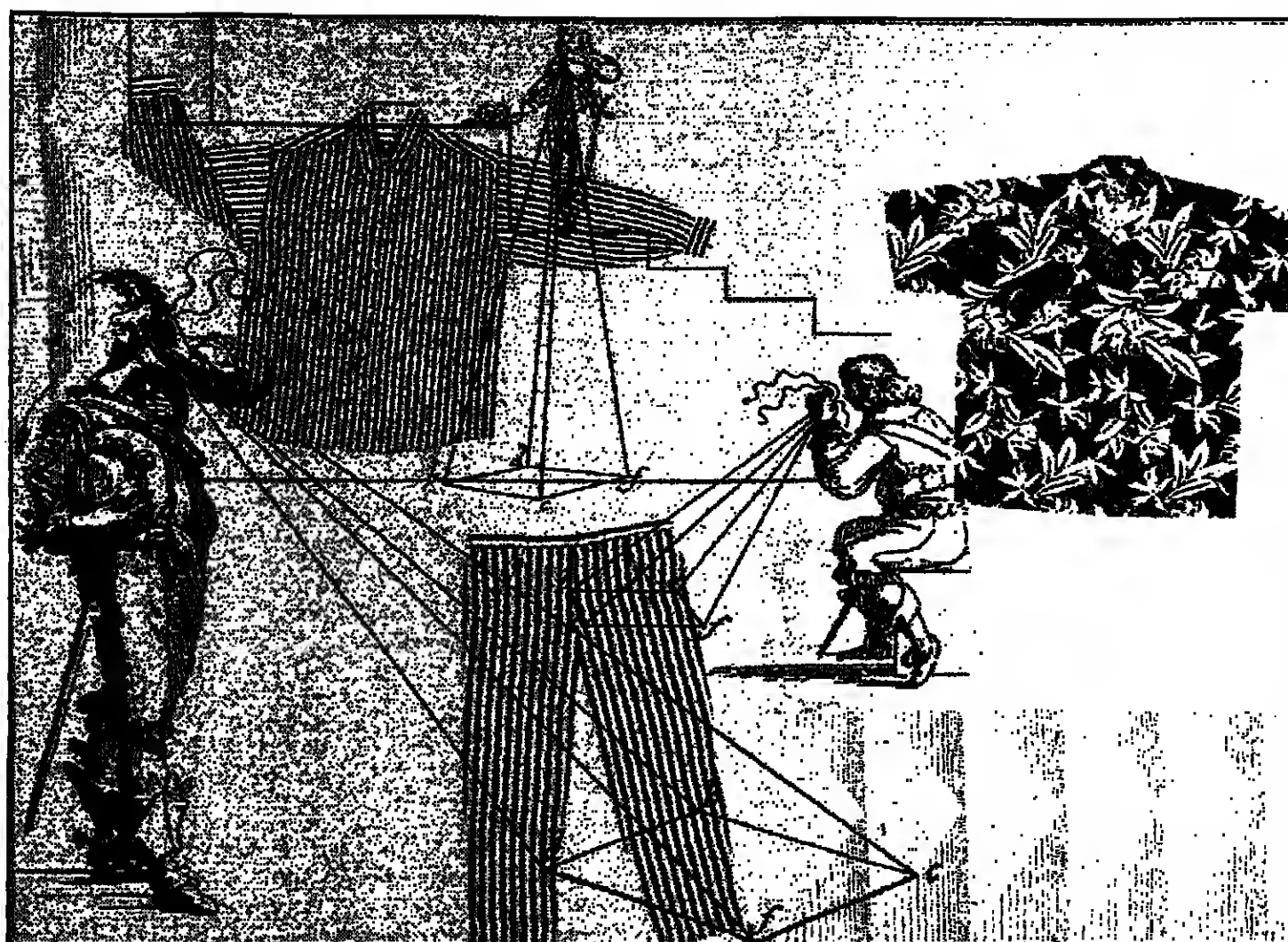
In short, it is one of Tippett's grand farraiges, and we hardly know what to make of it. It is impressive, of course. There are beautiful and striking passages, some astonishing orchestration and much rousing choral music, in which the London Symphony Chorus outdid themselves. For the past 40 years or so, Tippett has regularly produced something that prompted the immediate reaction: "This time he really has gone too far!" - and yet, sooner or later, we have found ourselves digesting it.

On Thursday Sir Colin made an utterly cogent success of Tippett's Fourth Symphony, which was greeted in many quarters in 1977 (just after his controversial opera *The Ice Break*) as another of those impossible, recklessly choppy works. This time, even the heavy breathing - pre-recorded or (now) synthesised, at the start, the blackest climax and the very end - seemed to make perfect dramatic sense. (Tippett wanted to set the whole symphony in a birth-to-death frame.) Beyond that, the sumptuous paragraphs for distinct sections of the orchestra unrolled with lucid eloquence, and an untroubled certainty about everything coming right at the end: which it did.

That same concert included two aptly chosen pieces by composers not so very much older than Tippett. Sibelius's Symphony no. 7 and Stravinsky's lean, gutsy Violin Concerto. The Sibelius was a little less stirring than Davis has made it on other occasions; probably the Tippett Fourth had the lion's share of rehearsal-time. The Stravinsky, however, with the young ex-prodigy Midori as soloist, got a brave and winning performance. Her double- and triple-stopped chords were flawless - great, gleaming slashes - and her grip on the entire piece absolutely firm; it was a bracing pleasure to hear.

Brief notes on two other concerts, by the South Bank's resident Alban Berg Quartet and by the young soprano Galina Gorchakova at the Wigmore Hall. The Alban Bergers played late Haydn and Beethoven with all their customary precision and judiciousness, worthy, and quite unexciting until Beethoven's "Grosse Fuge" in the magnificent op. 130 quartet, where at last they conveyed some sense of urgency and struggle. But they were ridiculous in Schoenberg's late, fiercely strenuous Trio: it sounded like a placid exercise, quite inert - a study-performance. I wish these admirable, sensible players would go away and get into some interesting trouble somewhere.

Miss Gorchakova repeated, more or less, her Edinburgh Festival recital. Fine, enterprising programme (Glinka, Dargomyzhsky and the young Balakirev were all gracefully on show, along with some unfamiliar Tchaikovsky and Rakhmaninov), but almost anything would have served to display her remarkable gifts. The dramatic range, sensitivity and subtle power of her singing were breathtaking, even when scaled down prudently for the Wigmore. One will be grateful to hear this artist in practically anything she feels like singing.



'Measuring Clothes' 1994, mixed media on cloth by Sigmar Polke

## A real talent for ugliness

William Packer on the work and reputation of Sigmar Polke

Sigmar Polke is now 54, an artist born in Silesia, in what is now Poland, who has lived in West Germany since he was a boy. He came to prominence while still a student at the Düsseldorf Kunstakademie in the 1960s, one of a group of young and radical artists along with Joseph Beuys, Gerhard Richter and Blinky Palermo. He has continued to enjoy a remarkable critical and professional success; professor here, professor there, and winner of prize after prize, from Sao Paulo in 1975 and the Golden Lion at Venice in 1986 to the Erasmus Prize at Amsterdam last year. He can do, so it would seem, no wrong.

Indeed, Nicholas Serota and Lewis Blegs of the Tate, in their catalogue preface to this first major survey of Polke's work in this country, tell us that he is "widely acknowledged as one of the most significant artists working today." Other authorities variously describe the artist and his work in the catalogue with words such as challenged, investigated, cultivated, contradictions, subversive, doubt, resistance, unintelligibility, communicate, enigmatic, perverse.

The point is that all these qualifying and tendentious descriptives are abstract, even moral in the qualities to which they refer, the inference being that only by questioning, challenging, subverting, is an artist now to be properly significant and *avant-garde*. And what is to be the object of such questioning? What does Polke actually do?

He uses commercial printed fabrics instead of canvas, which radical departure gives him, we are told, a freedom to explore the very nature of painting itself, rendering obsolete the "idea of a blank surface awaiting the autograph mark". It brings the support itself out of the studio into the everyday world, good old canvas being, I suppose, so exotic. And of course to render anything obsolete in this rarified critical atmosphere, is an obvious and absolute good.

Among the several examples we are offered of this aspect of his genius are some 16 tea-towels sewn and stretched together, a woman crudely drawn *profile perdue* upon a piece of mock leopard-skin, and a profile head achieved by simply joining up the dots of a particular print. Thus "beneath the penetrating humour" is the history and practice of painting challenged and rewritten.

Nowhere do we hear of what Polke's work actually is in terms of painting and drawing - which is just as well, given that his every direct intervention with the brush and paint betrays both gross ineptitude and acute insensitivity. Such "apparent ham-fistedness", Sean Rainbird argues in the catalogue, "admits the individual spirit in the hand-made." Oh: heads he wins, tails we lose. It takes a real talent, certainly, to make such ugly things.

Polke himself seems tacitly to admit his limitations, for whenever a particular and effective graphic image is required, he resorts to the mechanical aids of screen-print or photographic projection to mask his technical nakedness. By such devices, so runs his apologist's excuse, he "appears now to delegate ever more processes in his painting, while remaining in ultimate control." He plunders art history and technical illustration for his motifs, which he sets against "increasingly unstructured grounds on which he has limited the autograph mark by allowing the liquids he applies to find their own final shape."

The hard fact, put at its kindest, is that when it comes to painting or drawing, he cannot do it very well. Polke "possibly [I like the possibility] the most significant artist in the latter part of this century" has been very lucky in his apologists. Or, perhaps, for it was not the Emperor himself but his courtiers who were the real fools in the story. Does such a gap between pretension and reality really matter? Probably not - I like the probably.

Sigmar Polke: Join the Dots; the Tate Gallery, Albert Dock, Liverpool, until April 17.

Theatre/Alastair Macaulay

## Miller's 'Broken Glass'

That Arthur Miller is the most overrated playwright of our time is confirmed by a second viewing of *Broken Glass*. This is the 1994 play whose National Theatre production last year, as directed by David Thacker, now transfers for a limited 10-week West End season at the Duke of York's Theatre. As usual, Miller is saying important things. *Broken Glass* is about the ruinous repression of Semite anti-Semitism, a repression which damages others as well as the self.

Philip Gelburg, an East Coast American, alternates between active guilt about being a Jew and awkward pride in achieving status as a token Jew in a WASP society. Meanwhile he has forced his breadwinner dominant-male image so far that he has stopped his wife Sylvia from pursuing a career, and then has felt so much guilt about that that he has been rendered impotent for these 30 years. Now at last - the play is set in 1938 - Sylvia has brought matters to a crisis by losing the use of her legs as a psychomatic reaction to Kristallnacht. The play covers the period in which Dr Harry Hyman tries to treat her and to reveal the cause of her affliction.

You can see (you can't miss) how earnestly Miller places himself at the end of the line of tragedians,

stretching back via Ibsen to Sophocles, who tackle Aristotelian issues of recognition and reversal on a psychological level. You have to acknowledge, too, that he knows how to leave his play with some cute jokes. But Miller's dreadful heaviness of spirit turns his psychodrama into humdrum melodrama. His dramatic personae are not characters but sociological diagrams. Worse, the ideas in his play loom like doodle-bugs in the air, obvious to all of us for ages before anyone onstage names them. Worst, when people do put them into words, the ideas become utterly banal.

Philip: "So what is the solution?" Doctor: "To forgive yourself, I guess. And the Jews." This kind of talk is as subtle as *Broken Glass* gets. It is shocking to find that people have been mistaking this serious-minded junk for serious drama. Whereas playwrights like Chekhov, Beckett, Pinter can write scenes or plays in which nothing happens but whose meanings unfold so as to make them taut and brisk and open-spirited, Miller's play plods crudely, monolithically, down its fixed path even while events are changing the lives of the people onstage.

Technically, the play's most interesting feature is its construction as melodrama of another kind. A cellist (Andrea Hess or Jane Salmon),

plays earnest, expressionist music (by Gary Yershon) before and between each scene. The music does more than fill in while stage furniture is moved around before our eyes, it functions like the interludes in the operas of Wagner or Debussy in developing the psychological atmosphere and tension of the action. And Thacker and his designer, Shaiel Korman, heighten this atmosphere and tension in physical terms by creating three spaces behind and beside the action, spaces we can see through solid sheets of glass, spaces in which we keep watching characters who are in our minds even while they are out of whichever scene is being played at the moment.

It is still not a good evening for American accents. The performances of Henry Goodman (as Philip), Margot Leicester (Sylvia) and Ken Stott (Dr Hyman) have gained in intensity since last August. But Leicester, for all the charming detail with which she creates an absorbing nervous system onstage, is still miscast; she has neither the beauty nor the vigour that are attributed to Sylvia. And Goodman's performance is as unyielding, narrow and ponderous as the play.

At the Duke of York's Theatre, for 10 weeks only.



Serious-minded junk: Ken Stott and Margot Leicester

Opera/John Allison

## The Woodlanders

One can hardly blame the enterprising Oxford University Opera for taking up Stephen Paulus's *The Woodlanders*, and giving last week at the Oxford Playhouse the opera's first performance outside the composer's native US. On paper he deserves to be taken seriously; his close association with the Opera Theatre of Saint Louis would seem to recommend him.

This summer, Paulus's fifth opera (*The Woman at Otowi Crossing*) will be unveiled in Saint Louis; *The Woodlanders*, his third, was premiered there ten years ago. On the evidence of this Thomas Hardy-based opera, it is not difficult to see why Paulus's work has travelled little (*The Postman Always Rings Twice* is his only opera to have been seen in this country, at the Edinburgh Festival in 1983).

Paulus's resolutely tonal score is rich in grateful vocal lines; it is carefully structured, "well made". But most of the piece is in a rhythmically inert, meandering moderate, as unrequited as the relationships in Hardy's novel; at Oxford, not even Sarah Connolly's accomplished, sympathetic conducting could redeem it, and the result was an interminably long three hours. Even at such length, the opera

skates over the surface of Hardy's plot. The libretto - surprisingly, from such an experienced opera hand as Colin Graham - presents little more than Hardy's chain of relationships, with most of the characters inhabiting one-dimensional emotional plains. There are no less than 19 roles, several small enough to have been cut, that clutter the action and leave little room to develop the undoubted operatic potential of others - George Melbury and his daughter Grace, for instance.

Allison Brown's straightforward production and David Falser's woodland setting (but not his costumes, in Dorchester-Oxford style that hardly defined social status) brought clarity wherever possible. The cast, a mixture of young professionals and students, projected their words admirably. Notable among them were the baritone Meurig Davies as the doomed Giles Winterbourne, the smooth-toned mezzo Kathryn Hyde as tragic Marty South, and Iwona Januszajtis, alert and characterful as the housekeeper Grammer Oliver. Elizabeth Rodger, suffering from a virus, had to walk the part of Grace while Jane Webster sang strongly from the pit - a loss, as the role is perhaps the most fully drawn in the opera.

## INTERNATIONAL ARTS GUIDE

### AMSTERDAM

CONCERTS  
Het Concertgebouw Tel: (020) 671 5345  
● Royal Concertgebouw Orchestra: with pianist Radu Lupu and conductor Carlo Maria Giulini plays Mozart and Brahms; 8.15pm; Mar 1, 2

### BARCELONA

GALLERIES  
Fundacio Joan Miro Tel: (93) 329 1908  
● Julian Schnabel: works by the American artist including 30 large format paintings and four monumental sculptures displayed outside the building; to May 14

### BERLIN

GALLERIES  
Deutsches Historische Tel: (030) 215 020  
● Art from the GDR 1949-1990: exhibition that looks at politically commissioned art in the old German Democratic Republic; to Apr 18

OPERA/BALLET  
Deutsche Oper Tel: (030) 341 9249  
● Faust: by Gounod. Conducted by Lawrence Foster/Heinrich Hollreiser/Jiri Kout, production by Jean-Pierre Ponnelle; 7pm; Mar 5  
● Les Interimittents du Coeur: ballet in two parts by Saint-Saens. Choreographer, Roland Petit; 7.30pm; Mar 2  
● Tosca: by Puccini. Conducted by Johan M. Arnell/Stefan Soltesz, produced by Boleslaw Barlog; 7pm; Mar 3

### LONDON

CONCERTS  
Barbican Tel: (0171) 638 8891  
● Brahms Evening: Sir Simon Rattle conducts the City of Birmingham Symphony Orchestra with violinist Maxim Vengerov; 7.30pm; Mar 4  
● Britain at its Best: Yehudi Menuhin conducts the Royal Philharmonic Orchestra to play Elgar, Britten and Vaughan Williams; 7.30pm; Mar 3  
● Pierre Boulez 70th Birthday Celebration: Boulez conducts the London Symphony Orchestra with violinist Kyung-Wha Chung to play Ravel, Bartok and his own 'Figures, Doubles, Prisms'; 7.30pm; Mar 2  
● Festival Hall Tel: (0171) 928 8900  
● City of Birmingham Symphony Orchestra: with soprano Faye Robinson and Cynthia Clarey and tenor Philip Langridge. Sir Simon Rattle conducts Pavel Haas, Schoenberg and Tippett; 7.30pm; Mar 3  
● The London Philharmonic: Franz Welser-Möst conducts Mozart, Bartok and Tchaikovsky; 7.30pm; Mar 2  
● The London Philharmonic: Franz

Welser-Möst conducts Shostakovich and Strauss; 7.30pm; Mar 5  
Westminster Abbey Tel: (0181) 928 8800  
GALLERIES  
Festival Hall Tel: (0171) 928 8800  
● After Auschwitz: exhibition of paintings, sculpture and photography produced by 21 contemporary artists in response to the Holocaust; to Apr 17  
OPERA/BALLET  
English National Opera Tel: (0171) 632 8300  
● Madame Butterfly: Puccini's opera, originally directed by Graham Vick; 7.30pm; Feb 28; Mar 3  
● Rigoletto: Jonathan Miller's updated version of Verdi's opera where the duke is a Mafia boss; 7.30pm; Mar 1  
● The Cunning Little Vixen: by Leoš Janáček. Original director, David Pountney; 7.30pm; Mar 2, 4  
Royal Opera House Tel: (0171) 340 4000  
● Der Rosenkavalier: by Strauss. Conducted by Andrew Davis, directed by John Schlesinger. Soloists include Felicity Lott/Anna Tomowa-Sintow as Prinzess von Verderberg; 6.30pm; Mar 1, 3  
● La Bohème: by Puccini. Conducted by Simone Young/Paul Wynne Griffiths, directed by John Copley. Soloists include Angela Gheorghiu/Amarda Thane as Mimì and Maria McLaughlin/Judith Howarth as Musetta; 7.30pm; Feb 28; Mar 2, 4, 8  
THEATRE  
Aldwych Tel: (0171) 836 6404  
● Indian Ink by Tom Stoppard. With Felicity Kendal, Margaret Tyacke and Art Malik (Not Sun) Barbican Theatre Tel: (0171) 638 8891

● The Venetian Twins: by Carlo Goldoni in a new version by Ranjit Bolt, and directed by Michael Bogdanov; 7.15pm; Mar 6  
National, Lyttelton Tel: (0171) 928 2252  
● What the Butler Saw: by Joe Orton. Directed by Phyllida Lloyd, with John Alderton as Dr Practice, and Richard Wilson as Dr Rance; 7.30pm; Mar 2 (7pm), 3, 4 (2.15pm)

### MADRID

GALLERIES  
Prado Tel: (91) 420 2836  
● Sebastiano Del Piombo: Venetian born artist of the Italian Renaissance. This exhibition explores his influence on Spanish painting during the 16th and 17th centuries; from Mar 1 to Apr 30

### NEW YORK

CONCERTS  
Avery Fisher Tel: (212) 875 5030  
● New York Philharmonic: with baritone Dmitri Hvorostovsky and conductor Valery Gergiev plays an all Russian programme of Mussorgsky and Rimsky-Korsakov; 8pm; Mar 2, 3, 4  
Carnegie Hall  
● Vienna Philharmonic Orchestra: Sir Georg Solti conducts Wagner, Strauss and Beethoven. The first of three appearances in New York by the Vienna Philharmonic; 8pm; Mar 3  
● Vienna Philharmonic Orchestra: Sir Georg Solti conducts Stravinsky and Tchaikovsky; 8pm; Mar 4  
● Vienna Philharmonic Orchestra: Sir Georg Solti conducts

Beethoven and Stravinsky; 8pm; Mar 5 (2pm)  
OPERA/BALLET  
Metropolitan Tel: (212) 362 6000  
● Der Rosenkavalier: by Strauss. Produced by Nathaniel Merrill, conducted by James Levine; 7.30pm; Mar 1, 4 (1.30pm)  
● La Bohème: by Puccini. Produced by Franco Zeffirelli, conducted by John Fiore; 8pm; Mar 4  
● La Traviata: by Verdi. Produced by Franco Zeffirelli, conducted by John Fiore; 8pm; Mar 2  
● Simon Boccanegra: by Verdi. A new production directed by Glencarlo del Monaco; 8pm; Feb 28; Mar 3, 8  
New York City Opera Tel: (212) 307 4100  
● Carmen: by Bizet. Conducted by Semyon Vekstein/Joseph Colaneri and produced by Jonathan Eaton. In French with English surtitles; 8pm; Mar 5 (1.30pm)  
● La Rondine: by Puccini. Conducted by Guido Almonre-Marsan, produced by Lotfi Mansouri. In Italian with English surtitles; 8pm; Mar 3  
● Madame Butterfly: by Puccini. Conducted by Guido Almonre-Marsan and produced by Frank Corsaro. In Italian with English surtitles; 8pm; Mar 4  
● The Marriage of Figaro: by Mozart. Conducted by Scott Bergeson and produced by John Copley. Soloists include Wendy Nielsen and Kathryn Gamberoni. In Italian with English surtitles; 8pm; Mar 4 (1.30pm)  
THEATRE  
47th Street Tel: (212) 307 4100  
● Jelly Roll: adapted by Vernel Bagneris who also stars in this look at the musical life of Jelly Roll

Morton; 8pm; (Not Sun)  
Jean Cocteau Repertory Tel: (212) 677 0060  
● The Cherry Orchard: by Chekhov. A new production directed by Eve Adamson; 8pm; to Mar 3

### PARIS

CONCERTS  
Champs Elysées Tel: (1) 47 23 37  
21/47 20 08 24  
● National Orchestra of France: with soprano Yvonne Kenny, tenor Anthony Rolfe-Johnson and baritone Gerald Finley. Arnold Oestman conducts Haydn's 'La Création'; 8pm; Mar 2  
BALLET  
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50  
● La Damnation de Faust: by Berlioz. Conducted by Myung-Whun Chung and produced by Luca Ronconi. Soloists include Béatrice Uria-Monzon as Marguerite, and Thomas Moser/Gary Lakes as Faust; 7.30pm; Feb 28; Mar 2, 5 (3pm)

### WASHINGTON

CONCERTS  
Kennedy Center Tel: (202) 457 4600  
● Kiri Te Kanawa: with pianist Martin Katz. Works by Mozart, Strauss and Berlioz; 7pm; Mar 6  
● National Symphony Orchestra: with cellist Carter Brey, Hugh Wolff conducts Mozart, Bartok and Dvořák; 7.30pm; Mar 2, 3, 4  
OPERA/BALLET  
Kennedy Center Tel: (202) 457 4600  
● Manon: by Massenet/MacMillan. An American Ballet Theatre production; 8pm; Feb 28; Mar 1, 2

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For the first time since Iran's Islamic revolution 16 years ago, foreign guests were not invited to the anniversary celebrations this month. The ceremonies were overshadowed by worsening economic difficulties, including a currency crisis, rising international debt, lack of foreign investment and the failure of economic reforms to bear fruit.

Once regarded by investors as a potentially lucrative market of 60m consumers, Iran has turned into an economic disappointment.

For years, Iran's political activities have been closely watched by hostile western governments. The Iranian authorities support Islamic fundamentalism around the world, including in Algeria and Egypt, and are suspected of involvement in the bombing of a US airliner over Scotland in 1988 which killed 270 people.

There are also fears about Iran's nuclear ambitions and build-up of conventional arms. This month, Mr Newt Gingrich, speaker of the US House of Representatives, called on the Clinton administration to devise a strategy to counter Islamic fundamentalism, one which "ultimately is designed to force the replacement of the current regime in Iran".

Now it is the turn of the Iranian economy to cause concern in the west. A government spending spree in the early 1990s, based on optimistic oil price forecasts, saddled the country with debt. The subsequent need to constrain imports has led to recession.

High inflation and the gradual removal of subsidies on basic goods mean that most Iranians have to struggle to make ends meet. In recent weeks a sharp fall in the rial, the local currency, has made matters worse. The rial lost a quarter of its value last month and now trades on the open market at about 4,400 rials to the dollar compared with about 2,500 rials a year ago.

Inflation is officially put at 40 per cent, but in Tehran's main bazaar some goods have doubled in price in the past month. A programme of liberalisation, including measures to extend privatisation and attract foreign investment, has all but been abandoned. Exchange and price controls have been reimposed and privatisation is stalled.

For Iran's trading partners, the rising level of debt is particularly worrying. Iran enjoyed an excellent payments record until a few years ago when it began defaulting on

## No cause for celebration

Iran's economic problems are worsening, say Scheherazade Daneshkhu and Gillian Tett



Prices in Tehran's markets have been rising sharply

letters of credit. At least \$8bn of short-term debt has now been refinanced with a grace period of 1-1½ years.

Some of Iran's EU trading partners, led by France, are now trying to establish formal mechanisms to co-operate in dealing with the debt problem.

Western diplomats calculate that debt repayments are costing the country about \$8bn a year - more than half its estimated oil revenues - and there are fears that it could start to default again within 18 months. However, letters of credit opened by Bank Markazi, the central bank, since March 1994 are being paid on time, as are interest payments on the debt reschedulings.

As for investment, few foreign companies have committed themselves to Iran. Exceptions include Coca-Cola, PepsiCo and Nestlé, the Swiss foods group. The US soft drinks companies - which established bottling factories

recently - say they have high hopes for the Iranian market in spite of remarks by Ayatollah Ali Khamenei, the religious leader, calling their products symbols of US imperialism.

Other investment projects are in trouble. The Iranian government recently established an economic free trade zone on the island of Qeshm in the Gulf, but its future is uncertain. "The project is proceeding at a slow pace because the Iranian government has not found many investors," says Mr Wolfgang Breyer of the Siemens subsidiary which is supposed to provide a power plant for the project. "We have had to reduce the plans for the generator to 20 per cent of the original plan... This problem is not unique to Iran. But to do business here in Iran you have to take a very long-term view."

The scale of Iran's problems was underlined by a recent editorial entitled "Economic Chaos" in *Kayhan*, the mass

circulation daily which normally fills its pages with pro-government Islamic rhetoric.

Kayhan said Iran's economic problems were "out of control" and made the government of Mr Ali Akbar Hashemi Rafsanjani, the president, look like a collection of "toothless tigers".

But Iranian officials insist the economy is on the mend. Next month, Mr Rafsanjani will launch the second five-year development plan, delayed by a year because of the economic problems. Mr Mohammad Hossein Adeli, the former Central Bank governor, and now an adviser to Mr Rafsanjani, says Iran can easily meet the demands of its trade creditors and has been enjoying a steady economic upturn.

Mr Adeli's colleagues in other ministries in Tehran talk with optimism about infrastructural projects they hope to launch. Mr Akbar Torjan, roads and transport minister, claims he has a host of road, rail and pipeline schemes under construction, funded by the government, which aim to turn the country into a transport hub for the region, linking the Central Asian states north of Iran to the outside world.

Such pronouncements have not convinced foreign observers. Iran, they say, suffers from a chronic shortage of foreign exchange, excessive bureaucracy and a lack of continuity in economic policy. "Iran's economy is bringing it to something of a crunch," said one Western diplomat. "If liberalisation is pushed through, it could transform Iran. If it is blocked or there is a backlash, it could leave Rafsanjani emasculated - and what could happen then is anybody's guess."

One problem with the economy is that competing ministries and other government agencies pursue their own interests, a tendency which has reinforced the impression that Mr Rafsanjani is not fully in control.

Even the reforms that have been made are controversial. Few Iranians believe the privatisation of state factories and mines has involved much more than redistributing state assets to favoured political groups.

Sixteen years of falling living standards have left much of the population disillusioned with the Islamic revolution. After years of dabbling in politics, many Iranian leaders no longer enjoy their old religious legitimacy, while their inability to tackle the economic crisis has left them looking ineffectual as politicians.

## Europa: Michael Stürmer

# Need for a military option



Now that the New World Disorder has replaced the cold war, the need for a common European foreign and security policy has become very much more apparent. Such a policy was an essential part of the Maastricht treaty agreed in 1991: a central feature of Europe's planned political union. Alas, four years later, that earlier promise has turned sour.

The dangers in the letter part of the 1990s will be essentially different from those of the cold war. Yet the west's institutional framework and modus operandi are much the same: yesterday's solutions for tomorrow's problems.

Post-cold war Europe is caught between two arcs of crisis, one to the east, the other to the south. In the east, the heirs to the Soviet Union continue to dispute the succession. In the lands vacated by Soviet imperialism, the prospect of long-term stability and order is patchy, to say the least.

Nato and the European Union clearly have no magic solutions to resolve the political and economic future of eastern and central Europe. It is somewhat ominous that these territories have been the focus of European disputes, frequently including Russia, for the past 300 years.

The west has no choice but to seek an economic and strategic response to try to fill this eastern vacuum, in a fashion that avoids making enemies of the Russians. If this effort fails, western nations will find themselves in a very chilly peace, hardly distinguishable from another cold war.

To Europe's south, a vast process of violent change is taking place in North Africa

and around the Mediterranean rim. These changes are being driven by a population explosion and a battle between various kinds of fundamentalism and modern state secularism, and modern state secularism. On these southern shores, a cocktail of risks is emerging, stemming from a mixture of factors: the breakdown of political institutions, the proliferation of missile technology (a problem above all in Libya) and the broader clash of northern and southern cultures.

These diverse challenges confront Europe with the need to become a long-term manager of the transformation of political and economic structures in both the east and south. Most important of all, it must become a genuine balancing force, in partnership with the US, to offset the power of Russia.

What steps can be taken to accomplish these objectives? The answer is to grasp a difficult but inescapable truth: without a common foreign and security policy, Europe will be unable to protect the interests of its various constituent nations.

Europe needs to find a global political role equivalent to its economic weight. A common foreign and security policy will need a firm hand to give it substance and direction, either through the Commission or through the Council of Ministers. The policy will also need the power to deploy military force outside its borders as an instrument of crisis man-

agement and prevention. Force of arms by itself, of course, is not sufficient to resolve political instability: to withstand the political erosion along Europe's borders, military power can only be a last resort. But Europe will need the less need an intervention force - in which the German army will have to play a part - to add strength and credibility to the instruments of diplomacy. Without such a force, and the will to use it, European efforts at crisis management will be nothing but a series of empty gestures.

In the past, Europe's foreign policy was civilian in style, relying on the provision of economic and financial support and the opening of markets. It was well-meaning, slow-moving and long-term. Today, there is still promise in this non-military approach. But we have to accept that the world's destiny will not be determined solely by growth rates and a general desire for self-enrichment. There will also be a need to use military means to protect the rule of law beyond Europe's wealthy shores; or, put simply and idealistically, to help ensure that the world is a decent place.

There is an additional reason for a common foreign and security policy. The US no longer stands between the European nations and the New World Disorder. This is a shocking discovery for Europeans still queuing for the peace dividend. The advent of the Republican majority in Congress has made one fact crystal clear: the US is no longer available to

protect Europeans from the spectres of their past and the possible follies of their future. Ultimately, Europeans' ability to construct a meaningful common foreign and security policy will become a test of the legitimacy of the entire EU. Once individual citizens realise that their security depends on Europe, their acceptance of the EU's role in providing it will increase correspondingly.

At present, no European nation is willing to place defence policy in the hands of the Brussels Commission, or to trust the Council of Ministers to carry out such policy by majority voting. There are so many foreign ministers in Europe, but not a European one; there are just as many defence ministers, yet no-one speaks for Europe.

The moment of truth will come with next year's EU intergovernmental conference. Its success or failure will be measured not by the number of footnotes to be added to the Maastricht treaty, but by whether Europe can become a genuine actor on the international stage.

Europe will fail in all its ambitions unless it can find a means to marshal and pool its energies. If the objective of a common foreign and security policy turns out to be a fair-weather idea that sinks in rough waters, we will not have long to wait for disasters to happen around Europe's borders.

Up to now, Europe has been fiddling while cities burn. Yesterday Sarajevo, today Grozny, tomorrow possibly Algiers. Later, perhaps, the explosions will be heard still closer to home.

The author is director of Stiftung Wissenschaft und Politik, the German foreign affairs and defence policy institute.

**The west must seek an economic and strategic response to try to fill the eastern vacuum, without making enemies of the Russians**

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-875 5938 (please set fax to "fine"). Translation may be available for letters written in the main international languages.

## Claims of single currency enthusiasts need to be kept in perspective

From Prof Patrick Minford.

Sir, In the debate over EMU, it is often alleged by proponents of a single currency that trade in the single market will be encouraged and facilitated by it.

The other benefit put forward is that the costs of doing business will fall because currency exchange is reduced.

This last "transactions cost" gain has been estimated by the European Commission, using

surveys of financial businesses, at 0.4 per cent of gross domestic product, but for a country with an advanced banking system at only a fraction of this, for the obvious reason that so much currency exchange is done by the stroke of a computer pen.

So disappointingly small is this benefit that attention has naturally refocused on the gains to trade, and businesses are often pressed into ser-

vice to emphasise this. Yet the verdict of a huge number of academic studies is unanimous that exchange rate variability has at most a tiny negative effect on trade and may have none at all.

Econometric studies must of course be treated with caution: but economic theory, in line with common observation, supports the idea that companies can operate in different markets with separate currencies,

while hedging themselves against exchange rate variations affecting overall profits.

When a single currency is likely to reduce massively the nation's power to stabilise its economy, it is only right to keep the claims of its enthusiasts in cool perspective.

Patrick Minford, University of Liverpool, Eleanor Rathbone Building, PO Box 147, Liverpool L69 3BX, UK

## Mexico too leveraged to set up monetary board

From Mr William R Cline.

Sir, Professor Steve Hanke (Letters, February 21) and others have proposed a currency board for Mexico. In my view, that is neither feasible nor desirable.

The main reason for the revival in interest in this mechanism as relevant for a large country like Mexico is that Argentina has so far enjoyed success with its quasi-currency board. But Argentina experienced hyperinflation in 1980 and 1990 and needed an extreme device to restore confidence in the currency. Even so, Argentina's arrangement is not a pure currency board, as Professor Hanke has critically observed in his book on the subject, because it retains central bank authority and required bank reserves.

Correspondingly, it pledges to redeem in foreign currency not just currency but the full money base (currency plus bank reserves).

The principal problem of feasibility is that Mexico's monetary structure is highly leveraged, and so any credible pledge to convert pesos at a permanently fixed rate would require massive foreign reserves. When Argentina adopted the Convertibility Plan in 1991, its external reserves

were larger than its money base and also larger than its M1 (currency plus demand deposits) and amounted to three-quarters of the wider aggregate M2 (which adds savings and time deposits).

In contrast, while the \$11bn reserves figure suggested by Professor Hanke for Mexico would cover the money base, because Mexico's money multiplier is high and bank reserves are low this amount would cover less than half of M1 and only one-sixth of M2. For credibility comparable to that in the Argentine arrangement, Mexico would need as much as \$50bn in foreign reserves.

Moreover, the currency board is effectively a gold standard and achieves external adjustment in the same way as that mechanism, known for its recessionary bias. Mexico has not gone through hyperinflation and does not need to pay the potentially high price of committing to real exchange rate adjustment solely through domestic deflation with no help from nominal exchange rate changes.

William R Cline, senior fellow, Institute for International Economics, 11 Dupont Circle, NW, Washington DC 20036-1207, US

## Barings: contrasting view of threat from a tarnished derivatives system

From Mr John Carroll.

Sir, I was struck by the contrast between your editorial on the Baring crisis, "Body blow to Barings" (February 27), which states that "it seems almost at this stage to discern a threat to the system" and your front page report, "Barings forced to cease trading", which has (by implication) virtually every top banking executive in the City saying "There, but for the grace of God, go I."

John Carroll, 7 Appian Way, Dublin 6, Republic of Ireland

The tragedy that is Barings is proof that traders are perhaps less easy to control than weapons of mass destruction, particularly given the multiplicity of participants in almost every nook and cranny of the financial system. In the meantime, those responsible for compliance throughout the industry must fear the first copy-cat killing.

Michael Johnson, Flat 4, 68-70 South Hill Park, London NW3, UK

From Mr John Donovan.

Sir, Derivative trading is virtually a zero sum game, if dealing costs are ignored. Where have the profits (winnings) gone?

Barings is not the first case of huge losses in this type of dealing, yet there seems a curious lack of interest as to who or where the winners are.

John Donovan, 17A La Plaza, Ordino, Andorra

## German bids weakness

From Mr Robert Hutchinson.

Sir, I welcomed your exposure of the hazards of being an equity investor in German companies ("Germans demand a better deal on new equity issues", February 21). You omitted to mention, however, that it is the dysfunctional takeover mechanism, and in particular the lack of a takeover code, which is ultimately behind the other problems you describe.

The threat of takeover is more efficient in counteracting complacent or incompetent management than the supervisory board system of control. This threat does not exist under the present situation, as hostile takeovers are almost impossible. This view is gain-

ing ground (even in Germany) especially in the light of recent high-profile corporate failures.

Most objectionable of all, however, are friendly takeovers of controlling stakes in businesses at agreed prices without the offer being extended to minority shareholders.

Share ownership should become more popular if the individual minority shareholder could be assured of equal treatment, not only when beleaguered companies make further calls for capital, but also when the spoils of successful corporate governance are being unlocked.

Robert Hutchinson, 39 Airefield Avenue, London W4 2NN, UK

## No subsidy in fair price

From Mr David Porter.

Sir, ICI claims that large users' electricity bills are 50 per cent higher than before privatisation ("ICI warns on electricity price framework", February 25). However, recently published figures show that average electricity prices for industrial users are about 14 per cent down since privatisation.

If, for ICI, today's prices amount to a 50 per cent increase, it is only too clear how large must have been the subsidy to companies such as ICI before privatisation.

Today, ICI wants "a fair, competitive deal" for its electricity. That is what most commercial and industrial users get now and there is no reason why ICI should be any different.

Of course, a "fair" price is not one which is below the cost of electricity production. That would be a return to the dark days of subsidy.

David Porter, chief executive, Association of Independent Electricity Producers, 1st floor, 41 Whitehall, London SW1A 2BX, UK

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## FINANCIAL TIMES

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Tuesday February 28 1995

# After the US-China deal

The settlement of the dispute between the US and China over copyright piracy is a success for trade diplomacy, one for which both sides deserve credit. Not only has the threat of a trade war receded; Beijing has shown unexpected readiness to play by international rules, notably by offering improved access to its information and entertainment markets. The task now is to build on these achievements, with a view to accelerating China's integration into the world economy.

One of the deal's most encouraging aspects is the greater realism and maturity it denotes in both countries' approach to trade policy. After the failure of its ill-judged efforts last year to use trade to bludgeon China over human rights, Washington seems to have learnt the value of picking its targets more carefully and pursuing them more consistently. Beijing has shown that, for all its rhetorical obduracy, it is prepared to bow to foreign pressure and face down powerful domestic jobs when it perceives its economic interests to be on the line.

China's increased flexibility may also reflect an easing of the leadership struggle, which has recently immobilised political decisions. That, at least, is suggested by its alacrity in closing a pirate compact disc plant personally blessed by Deng Xiaoping. What is certain, however, is that Beijing concluded that it stood to lose more from a trade war than did the US, rightly so in view of the huge bilateral surplus it enjoys. As well as losing access to its biggest export market, it risked unnerving foreign investors and prompting Washington to toughen still further its stance on Beijing's application to join the World Trade Organisation.

Welcome as that realisation is, it marks only the beginning of the lengthy process of adaptation that

China must undertake if it is to safeguard its long-term economic interests. Its immediate priorities should be to extend on a multilateral basis the concessions it has negotiated with the US and to implement them rigorously. Beijing has not always honoured trade agreements. Failure to do so this time would destroy the goodwill earned by last weekend's agreement and raise renewed doubts about its commitment to negotiating in good faith.

Beijing can ill afford such a blow to international confidence if it is successfully to conclude its negotiations to enter the WTO. Admittedly, that priority seems recently to have slipped down its political agenda. Serious bargaining is unlikely to resume until it withdraws its threat to offer no fresh concessions and moves further to meet WTO members' demands. Beijing has yet to demonstrate that it accepts the obligations of the multilateral trade system or the politically difficult disciplines they impose.

Unless it tackles these challenges, it will handicap its own economy. China needs to recognise that WTO membership is not a prerogative to which it is entitled by virtue of size. Rather, respecting its rules is the most effective way to underpin domestic reforms, reassure foreign investors and ensure a stable place in the global economy.

The big trading powers can help that process. Provided Beijing negotiates more purposefully, the US should drop its unrealistic demands that China join the WTO as a developed country. The EU's biggest contribution would be to stop misguided attempts to curry favour with China. But the initiative has to come from Beijing. Though last weekend's deal closed one chapter in its trade diplomacy, the much bigger one of WTO membership remains open.

## No bail-out

The Bank of England has taken the right course in allowing Barings to go under. The failure to stitch together a rescue package is unsurprising, given that Barings' losses will continue to increase if Japanese markets fall further. Mr Kenneth Clarke, the chancellor, has rightly asked for a full investigation of why controls failed to detect or deter the risk accumulated by a single trader.

But there is no sign, so far, that the collapse represents a threat to the banking system. The world can live without Barings, as it has done without Drexel Burnham Lambert, the US junk-bond specialist which founded in 1980.

The significance of the Bank of England's restraint is that it shows how times have changed in the City of London. Barings' collapse may be regretted by many in the Square Mile, but in contrast to 1980 when it was saved from fail-

ure by a Bank of England lifeline, it had become a relatively small player in London's financial scene. Its collapse does not compromise the City's future.

The debacle will, no doubt, trigger a flight to quality - although it has also raised anew the question of where quality is to be found. Banks' internal accounting and settlements procedures may well be looser than they appear from the outside - although no controls may be proof against a systematic fraud of the kind Barings alleges.

Moreover, however high a bank's reputation in fee-based advisory work, it is the capital available to meet trading losses which counts. Barings has shown that the amount needed may be larger than many have assumed. Other small banks may now be considering whether they should beat a retreat from these markets.

## Farewell to Africa

The US intervention in Somalia, just over two years ago, was codenamed "Operation Restore Hope". Perhaps today's exercise, which sees US troops on shore there again to cover the UN withdrawal, should be called "Operation Abandon Hope".

Billions of dollars have been spent. Dozens of UN soldiers and several foreign journalists have lost their lives. Allegedly tens of thousands of Somalis were saved from starvation, but even this is disputed. Some relief agencies say the food crisis was already easing before the US Marines arrived, and that relief workers' own security deteriorated sharply as they found themselves caught up in a military operation against local warlords. Now, as the UN leaves, there is no pretence of having achieved a political settlement. Somalia is left as it was found, without a government, at the warlords' mercy. If anarchy was the cause of famine, there is every prospect that famine will return.

Somalia's tragedy is also the world's. Operation Restore Hope was ordered by George Bush, the victor of the Gulf war and proclaimer of the "new world order". He wished to end his mandate with a demonstration that the US was a genuine world leader, ready to send troops across the world not only to protect an oil-rich state but also to rescue a dirt-poor one, whose collapse was partly caused by ill-judged western support for its former regime.

"We do deserts. We don't do mountains," General Colin Powell, then chairman of the US joint chiefs of staff, is supposed to have said, explaining his refusal to send ground troops to Bosnia. But Somalia, it turned out, was not a desert. South Mogadishu, in particular, was a maze of unpaved streets in which the US Rangers met their nemesis. They hunted for a warlord called Mohammed

Farah Aided without success but in the process swooped on UN development workers, killed Somali women and children, and quarrelled bitterly with Italian allies who understood the country better than they did. By October 1993, after two helicopters had been shot down, 18 soldiers killed and the body of one of them dragged through the streets, in front of the same TV cameras that had filmed the Marines coming ashore 10 months earlier, the US had had enough of Africa, enough of peacekeeping, and enough of the UN.

Perhaps the worst US mistake was the initial one - of thinking the operation could be confined to ensuring delivery of food without disarming the militias which were preying on food convoys. But the UN as a whole overestimated the challenge it was taking on in trying to pacify a country where state structures had collapsed.

Probably nothing short of a trusteeship, with outsiders taking responsibility for administration over a period of years and rebuilding Somali institutions from the bottom up, would have offered any long-term solution. The same may have been true of Bosnia, once Yugoslavia's disintegration was accepted. It will almost certainly be true of some other states in Africa, and in the former Soviet Union. Yet no member state of the UN appears ready to shoulder this kind of responsibility.

Worst of all, failure in Somalia has led the world to think nothing can be done anywhere in Africa. Faced with a quite different kind of crisis in Rwanda, where the genocide of half a million or more people could have been stopped by a timely show of force, and where an alternative government was ready to take over, the UN looked the other way, fearing another Somalia. Greater stamina is required, and clearer thinking.

At the close of business on Friday, Barings enjoyed a reputation as one of the best managed of Britain's second-tier merchant banking groups. Before the markets had reopened on Monday morning, the oldest name in British banking had been reduced to beggary.

The sheer speed of Barings' slide from financial respectability into administration was scarcely credible. No less astonishing was the manner of the demise, at the hands of a single, 28-year-old dealer in Singapore, Mr Nick Leeson, whose trading in financial derivatives had racked up potential losses well in excess of Barings' capital. The lethal derivatives exposures, according to someone close to the bid to rescue Barings, were accumulated in a matter of weeks. What does this tell us about the state of global finance today?

Not a great deal, is the official answer from the Bank of England, which is understandably keen to downplay the wider importance of the episode. After the failure of efforts to put together a rescue on Sunday night, Mr Eddie George, the governor, declared that "these circumstances are unique to Barings and should have no implications for other banks operating in London". The relatively modest fallout in the markets yesterday suggests that his view of the Barings case as *sui generis* is widely accepted.

Yet the cumulative evidence of trouble in derivatives dealing, which has inflicted immense damage on a variety of companies and institutions including Kashiwa Oil, Metallgesellschaft, the Askin hedge fund management group, Kidder Peabody and Orange County, California, leaves an uneasy feeling about potential threats to the financial system.

The conventional wisdom among bankers on this score is encapsulated in an authoritative report by the Group of 30, a private sector think-tank, under Mr Paul Volcker, the former Federal Reserve chairman. It concludes: "Derivatives by their nature do not introduce risks of a fundamentally different kind or of a greater scale than those already present in the financial markets. Hence, systemic risks are not appreciably aggravated, and supervisory concerns can be addressed with the present regulatory structures and approaches."

In other words, derivatives do not add anything to the existing level of risk in the markets.

In one sense, the Barings saga confirms this seemingly complacent judgment. Throughout history, banks have been wrecked by single individuals engaging in unauthorised transactions that have been concealed from top management. Exceeding a limit on derivatives exposure is no different, in that sense, from exceeding a limit on loan exposures to a particular client or sector of the market. Far-flung subsidiaries and branches have always been difficult to control.

The cause of the trouble, in Barings' case, was not simply that records were being falsified on the spot. In Singapore Mr Leeson was involved in the process of settling transactions as well as initiating them. A watertight line between dealing and operational responsibility that would be regarded as crucial to any normal system of internal control was missing.

This was, first and foremost, a stunning managerial failure on the part of Barings' treasury department. But the failure of internal and external auditors, of the authorities in Singapore, and of the Bank of England, which handled the consolidated supervision of the Barings Group, to pick up this crucial weakness of internal control must be a key feature of the post-mortem.

Nor is there anything new in the principle of leverage in derivatives trading, whereby a small cash outlay buys large exposure to a given market - in this case the Nikkei 225 index. Banking has always entailed leverage, and a relatively slender wedge of capital supports a much larger book of loans whose capital value is uncertain. Derivatives, admittedly, introduce a new degree

# The box that can never be shut

The collapse of Barings leaves Eddie George with an unsolved derivatives conundrum, writes John Plender



of mathematical complexity into the equation. Yet there is no suggestion that Barings' futures and options contracts on the Japanese index were the products of vastly complex rocket science.

That said, the scale of the leverage and the scope for trouble in derivatives is surely new. The shift in both investment and commercial banking towards proprietary trading, where banks deal in securities and derivatives on their own account, means that leverage now operates at two levels. First, there is the financial leverage inherent in the bank's balance sheet. Then there is the leverage in the structure of the derivative instrument itself. The multiplication is potent.

In effect, Barings was operating as a hedge fund without knowing it. While the management thought the Singapore operation was engaged in low-risk arbitrage between the Nikkei derivatives exchange in Singapore and the Osaka stock exchange in Japan, Mr Leeson was actually taking leveraged bets on the Nikkei 225 index through futures and options contracts that were enormous in relation to the group's capital; and he managed to incur huge losses not in the midst of a stock market crash or financial crisis, but at a time when Japanese equities had been trading in a fairly narrow range. In the space of an hour on Monday morning, this single, hitherto obscure trader in Singapore had caused a sharp knock to prices in the world's second largest equity market, where the Nikkei 225 fell by 3% per cent.

Equally important, the unusual nature of the leverage in derivatives helped scupper the rescue bid. The traditional problem with bank rescues is that the value of the assets is always uncertain. Yet a rescuer will sometimes take on the risks involved, on the basis of very cautious valuation assumptions. The risk is anyway limited by the fact that the value of any given ques-

tionable asset cannot, by definition, fall below zero.

With the present case, in contrast, the one potential rescuer that came close to offering a firm price for Barings had to confront an open-ended liability of frightening proportions. On perfectly plausible assumptions about the movement of the Nikkei 225 index, the loss on Barings' derivatives exposures could easily have doubled when the markets opened on Monday morning. Yet the financial institutions invited by the Bank of England at the weekend to put up temporary capital to facilitate rescue in the longer run were unable to find a way of capping the liability.

This suggests that the world's financial markets have taken on a more dangerous dimension, even if the collapse of Barings itself does not pose a threat to the UK or global banking system. Doubly worrying is that the group was not taking risks in those areas of derivatives activity which are regarded as the most tricky.

Among the larger worries for central bank supervisors have been the lack of transparency in over-the-counter derivatives trading between banks; the difficulty of valuing derivatives contracts that are not quoted on formal exchanges; and the concentration of risk in an inner circle of big derivatives traders. Another widespread assumption has been that market risk - the threat to bank capital from volatile price movements - is the least of the problems. Indeed, when a Bank

of England internal working group produced a report on derivatives in 1993, the message it received from its interviewees in the City was that "market risk was not an issue".

The capital adequacy regime of the Bank for International Settlements reflected this. Until recently, it placed greater emphasis on credit risk, arising from the default of a counterparty in derivatives transactions. There was assumed to be a trade-off. As the Bank of England report put it, "by using derivatives to reduce market risk... traders tend to increase credit risk".

Yet Barings did not run around on any of these scores. It was dealing in uniform, exchange-traded instruments on the Simex exchange in Singapore and on the Osaka stock exchange in Japan. These are fully transparent and the traders are required to mark their contracts to market - that is, revalue them up or down in line with closing prices - daily. Credit risk is reduced because Barings' counterparties were the exchanges themselves, backed by their members' resources. In short, Britain's most venerable merchant banking group managed to come unstuck at the simple end of the business. Failure to control market risk was its undoing.

If the discipline of marking to market failed to work, it appears to have been because of concealment on the part of Mr Leeson, and possibly others. The contracts were written by the group's Barings Futures subsidiary; but the margin calls were met in part by the Barings Brothers bank. Both Barings' treasury department and the Singapore authorities were slow - the term is relative in this context - to grasp what happened because they were told that these were not Barings' own positions.

The Barings' treasury department was asked by Mr Leeson to fund margin calls for familiar clients who had agreed credit limits. The

numbers did not look threatening because Mr Leeson was also paying for margin calls by secretly writing options on the Nikkei 225 index in exchange for premiums. Despite being aware of a big build up in Barings' exposure in the Nikkei contracts, the supervisors at Simex were misled into thinking that these were aggregate positions of Barings' clients on which margin calls were being met.

According to one insider, the Barings' treasury department picked up the danger signals very soon after the exposure took off. But with a risk management system that was fundamentally flawed at the outset, the men from Barings had little chance of capping the exposure in time. Irretrievable damage had already been done.

What else could have been done to prevent the group's collapse? The traditional checks and balances on which central bank supervisors rely are people, controls, capital and liquidity. Clearly there were deficiencies in the first two categories. But capital and liquidity, the traditional fall-back safeguards, were of no use in the case of Barings. Concealment meant that capital discipline was meaningless. Similarly, the liquidity discipline of margin calls was neutered by a strategy of Mr Leeson's which would appear to have been fraudulent.

As for the discipline of credit rating, the London-based agency IBCA rated Barings highly on its performance, although its rating indicated that the bank could not expect to be supported in the event of trouble. It was undeniably wrong-footed. Yet the rating agencies in the US were no more successful in identifying the problems of Orange County.

As Robin Monroe-Davies of IBCA puts it: "This would appear to be a case of disobeying instructions; if so, an outsider like a rating agency can never hope to detect what inside management has already found hard to unravel. All a rating agency can hope to do is to see that reasonable rules are in place."

It is hard to fault the Bank of England's response once the nature of the crisis emerged. The attempt to broker a rescue was a worthwhile attempt to procure a more orderly outcome than administration or receivership can usually deliver. Once it had become clear that a rescue was impossible in the absence of an adequate cap on the liability incurred by Barings, Eddie George's decision not to support the bank with public funds looks unimpeachable.

Barings is a big name, but a small bank. There was no reason to believe that any other London-based bank was in comparable difficulties with derivatives. Nor does it seem likely that losses incurred by Barings' depositors, which are mainly wholesale institutions, or its counterparties will be enough to rock the banking system.

Yet the questions remain as to what should be done to control the risk that derivatives pose to the system. What the Barings saga reveals once again is that it is next to impossible for central banks to keep abreast of derivative exposures. They arise far too quickly, both on and off the balance sheet, to be satisfactorily monitored. Without constant supervision on every trading floor around the world - a practical impossibility - the job cannot be done.

But it is necessary to go as far as Mr Leo Melamed, the chief architect of the financial futures business in Chicago, in arguing of derivatives that "it is hopeless to attempt to harness their growth, prevent their invention, or regulate their application, outwithstanding any risks they may represent".

One message of the Barings collapse is surely that depositors within a banking group need ring-fencing from this kind of activity. Another is simply that practitioners and supervisors both need to pay more attention to risk management systems. But there is no closing this Pandora's Box. All involved acknowledge that derivatives are here to stay, for good and for ill.

## OBSERVER

### Lutz flies higher

Previous customers for the Czech-built Aero L-39 Albatros jet trainer have included the air forces of Afghanistan, Cuba, the former Soviet Union, Iraq, Syria and Libya. Now Bob Lutz, president of Chrysler, America's third largest carmaker, has bought one.

The flamboyant 63-year-old, with a passion for fast cars and big cigars, has reportedly paid \$200,000. Zürich-born Lutz, a former US Marine fighter pilot, has recruited an ex-Soviet air force major to teach him the niceties of handling it.

Lutz has a reputation for paying scant regard to speed limits: "You only risk getting caught between 75 and 95 miles per hour, after that you're safe," he used to claim when driving at 140mph in his Lamborghini - a former Chrysler subsidiary. His new plaything has a top speed of 455mph.

Chrysler says the Albatros comes without its usual weaponry, which is maybe just as well. Lutz once told a colleague: "Don't you ever try to take me on physically. You may be a former football player. But I'm a former Marine, and I'm trained to kill."

### Visiting professor

What now for Professor John Hewson, 48, the former euromarket

boffin who quit Australian politics yesterday? Hewson will always be remembered as the man who lost an unloose election. Having entered politics in 1987, he was elected leader of the opposition three years later and seemed destined to be Australia's next prime minister.

But he blew his party's chances of winning the 1993 election, a fairly frightening voters with his proposed consumption tax. Since then he has been drifting in the wilderness. Given his penchant for expensive homes and fast cars perhaps he will follow his wife, the second Mrs Hewson, into merchant banking. She is an executive director of Schroders Australia and has just picked up her first big non-executive directorship - a seat on the CSR board.

### Alms and Imran

Fundraisers for Pakistan's former cricket star Imran Khan's cancer hospital in Lahore are worried. The Shaikat Khanum Memorial Trust Hospital has raised about \$20m in the last six years, enough to build a hospital for cancer sufferers too poor to pay for their treatment. But it still needs cash to pay for equipment and salaries.

The month of Ramadan is normally a time when Moslems dig deep into their pockets to give alms. Imran's hospital hoped for about \$3m in donations this year, the same figure it achieved during

Ramadan in 1994. But the figure is currently far below that - and Ramadan ends next week in Pakistan.

What's gone wrong? Imran's supporters suspect their failure to get any advertising on the two state-owned Pakistan channels has something to do with it. Having protested to the TV authorities and been told there is no boycott against them - they are at a loss. The cash for the ad campaign is ready to go; but the TV bosses don't seem to want it.

All very peculiar. The more conspiratorially-minded suspect that prime minister Benazir Bhutto and her influential husband, Asif Zardari, have been blocking the ad campaign from fears of Imran's growing status as a future political leader.

### In arrears

The Bank of Italy has chalked up another victory in its hard-fought battle to retain its political independence. After several months' suspense, Pier-Luigi Cioffa, 53, head of economic research, has filled the vacancy on the four-man directorate which runs the central bank.

Cioffa was the bank's natural candidate to fill the post of deputy director-general, but politics intervened. The problem dates back to last May when Lamberto Dini, number two at the central bank, went off to be treasury minister.

Much to the bank's dismay, the Berlusconi government tried to replace Dini with one of its own supporters.

After a bitter skirmish, the bank won half a victory in October with the appointment of Vincenzo Desario, the junior of the two deputy directors, who was promoted above Tommaso Padoa-Schioppa, a more senior figure. Padoa-Schioppa had been blackballed by the Berlusconi government for being too close to the previous government headed by former central bank governor Carlo Azeglio Ciampi.

Relations with the then government were so strained that it was felt best to leave open the question of Desario's successor, especially since Cioffa was also identified as one of the "Ciampi boys".

### Barings bail-out

Spare a thought for Renato Riviero, chairman of Alitalia and former head of IBM Europe. He was recently persuaded that chairing the Italian wing of a prestigious merchant bank would look good on his curriculum vitae. Thus last November he became chairman of Barings Brothers (Italy), a director of the bank's overall investment banking division. His airline experience may come in handy. "There are six emergency exits; two at the front, two at the rear and two over the wings..."

## Financial Times

### 100 years ago

Sulphur industry in Sicily  
The situation in the Sulphur Mine district is giving rise to serious anxiety. The prevailing depression of trade and the low prices ruling causing great loss to the mine owners and much distress among their employees. A report is current that on the occasion of King Humbert's birthday, the 14th of next month, a general amnesty will be proclaimed for all prisoners sentenced by court martial during the repression of the recent disturbances.

### 50 years ago

S.S. Cars to change name  
The directors of S.S. Cars propose to change the name of the company to Jaguar Cars. Since 1935 the company's cars have been sold under the name Jaguar. By adopting the same name for the company as for its products, any possible confusion will be eliminated, and dissemination of publicity over two names avoided.

S.S. Cars began as Swallow Sidecars in 1922, but the name Swallow was considered too gentle for fast cars. The brand name S.S. Jaguar was first used in 1935.



## Hopes fade for early end to German pay dispute

By Michael Lindemann in Bonn

Hopes for an early end to the first strike in Germany's engineering industry since 1984 were fading last night after engineering employers threatened to lock out workers this week.

The threat, by Gesamtmetall, the employers' body, drew an angry reaction from the 3m-strong IG Metall union, which is demanding a 6 per cent pay rise. The union began selective strikes in Bavaria on Friday after employers had refused to discuss in detail the scale of wage rise they were prepared to consider.

"If it comes to lock-outs we will ensure that all hell breaks out in every town in the federal republic," warned Mr Werner Neugebauer, IG Metall's leader in Bavaria.

Gesamtmetall officials said the lock-outs - to be decided on Thursday at a meeting of the association's board - would mean a limited number of facto-

ries in Bavaria or elsewhere in Germany would be closed in a sign of support for those plants targeted by the union. The tactic would involve locking out workers at plants not affected by the IG Metall strike in order to increase pressure on strike funds.

During the last strike in 1984 the two sides did battle for seven weeks before agreeing on a working week of less than 40 hours.

The union yesterday extended the strike to the Rodenstock optical works in Regensburg, near the Czech border. Around 12,000 members were on strike at 22 Bavarian factories with a total workforce of 26,000, IG Metall said. It said industrial action would be extended to other plants tomorrow.

Analysts still suggest a settlement of between 3 per cent and 4 per cent can be reached for the engineering industry, but the showdown is being watched keenly by workers and employers

across Germany, where pay talks are conducted sector by sector. The HBV union, representing banking and insurance workers, said a 2 per cent offer from employers was not good enough and the construction workers' union has demanded a 6.5 per cent wage rise.

The two sides in the engineering dispute continued to try to outmanoeuvre each other yesterday. Mr Hans-Joachim Gotschall, Gesamtmetall chairman, said employers were ready to make a "decent offer" conditional on the union agreement to cost-cutting measures. Employers say introducing the 36-hour week on October 1, in line with an earlier agreement, represents extra wage costs of 2.5 per cent.

Union members have backed their 6 per cent demand by arguing that the German economy is making an unexpectedly robust recovery and that their members need more money to make up for recent tax rises.

## Van Miert warns over telecoms partnership

By Caroline Southey in Brussels

Mr Karel Van Miert, the EU commissioner in charge of competition, has warned France Telecom and Deutsche Telekom, the state-owned telecommunications utilities, that their planned alliance for a global business data transmission service could contravene EU competition policy.

The joint venture, known as Atlas, is under review by the Commission to establish whether it breaks EU rules. British Telecom of the UK has already filed a formal complaint to the Commission, claiming the deal would give the two operators a dominant position in the telecoms market. The proposed deal includes a \$4.2bn plan to buy a 20 per cent stake in Sprint, the third largest US long-distance carrier.

Mr Van Miert's doubts arise mainly from the fact that the joint venture, which he said would increase the dominant positions held by the two operators in their countries, a spokesman for Mr Van Miert said.

Mr Van Miert told a weekend meeting of the world's seven biggest industrial powers that he was concerned about moves to close markets where there had been advances in opening them up. He said there was evidence that most of the EU's telecoms companies were resistant to opening up their networks.

The US promised at the G7 gathering that limits on foreign stakes in US telecommunications companies will be lifted, but only for companies whose home countries have an equally liberal regime for telecoms investment.

The spokesman said Mr Van Miert warned German and French ministers that the two companies involved should review the proposal.

However, he said that Mr Van Miert made clear that his view "in no way prejudices the outcome of the investigation".

Mr Van Miert is due to meet the heads of Deutsche Telekom and France Telecom tomorrow night. The Commission has asked the two operators for more information by March 6 after Atlas.

The Commission is expected to make its preliminary findings two months after that date. The joint venture would offer corporate customers worldwide a series of services including data networks, national and international private networks and customised networks.

## Police hunt trader

Continued from Page 1

ferred by Barings were "either criminal or criminally negligent".

In the UK the Foreign Office said it was keeping in close touch with diplomats in Kuala Lumpur, although UK police said they thought it likely that any criminal proceedings arising from the Barings collapse were more likely to take place in Singapore. "As things stand, the matter is outside our jurisdiction," said a senior UK fraud investigator.

Mr Leeson is thought to be on the run with his wife, Lisa. Yesterday Mr Alex Sims, Lisa's father, said: "I am very, very concerned for his well-being now as well as Lisa's."

"He is not the sort who would do anything silly but I don't know why they haven't got in touch. I just wish they would call to tell me they are safe."

The family home, a three-bedroom end-of-terrace house at Haines Way in Levensden, near Watford, Herts, appeared empty yesterday, with neighbours saying they believed Mr Leeson's father, William, had gone to stay "up North".

Mr Leeson had been at Barings in Singapore for three years. Fellow traders say he earned about US\$300,000 a year, though this included hefty bonuses and commissions: one dealer said Leeson's bonuses on his derivatives trading last year could have exceeded \$2m (US\$1.4m).

In an interview in Singapore early last week, Mr Leeson said he was "heavily involved" in arbitrage trading of futures on the Nikkei index on the Osaka exchange and on Simex. He said he had been buying the contracts on Simex and selling in Osaka, taking advantage of price differences between the two markets.

## Asia predicted to boost grain exports

By James Harding in London

An increasing appetite for meat in fast-growing Asian countries will stimulate domestic production and create export opportunities for Europe and North America, the OECD forecasts in a report published today.

While Asian agricultural output will expand, Asian nations will need to import wheat for human consumption and coarse grains for feeding livestock, according to the *Agricultural Outlook 1995-2000*.

However, given the enormous capacity of North America and Europe, agricultural supply is likely to keep pace with demand, says the OECD, and world prices for agricultural produce are likely to rise only modestly. In real terms, prices could fall but not as fast as in the 1980s.

The forecast is in line with the expectations of commodity traders who warned that long-term predictions could be upset by natural disasters or radical changes in farm subsidy policies.

Mr Joe Arata, analyst at Merrill Lynch, the US investment bank, expected "prices to be pretty stable. Prices are not great, but they have been a lot worse and they're good enough to induce farmers to keep planting".

Traders were not troubled by the decline in long-term movements are built into futures' prices. "The futures market has factored in the spot price trends, so long-term movements are pretty irrelevant. What worries us is unanticipated price fluctuations," said Mr Steve Strongin, commodities strategist at Goldman Sachs, the US investment house.

The world market for physical exchange is likely to become more transparent. Greater consistency in world prices for cereals, oilseeds, meat and dairy products is expected as the distortions of surplus disposal on world markets are reduced by falling support prices and the GATT restrictions on subsidised exports.

Producers not reliant on state support are expected to be the winners in an increasingly competitive environment.

This is particularly true of the wheat trade, where the US share of world wheat exports is forecast to rise by 7 per cent to 48 per cent by 2000, largely at the expense of the European Union whose share of the world market is likely to fall by 28 per cent to 18 per cent.

Big appetites boost farm trade, Page 10

## Financial markets avoid share plunge

Continued from Page 1

Average hovered around 4,000. In London, the FT-SE 100 index, which opened 33.5 points down at 2998.2, rallied to end the day 12.4 points lower at 3025.3.

The CAC-40 index in Paris closed with just a 0.2 per cent decline.

On the foreign exchange markets, the main victim of the stronger D-Mark was the Italian lira, which plummeted to a low of L1.167 before intervention by the Bank of Italy arrested its decline. It closed at L1.150.

Fears about inflation and political instability weighed on the lira and hit Italian government

bonds, which fell by 1 1/4 points.

In Asian trading, sterling fell below its previous all-time low against the D-Mark of DM2.3130, in February 1993. It opened in London at DM2.2965, more than three pence below Friday's close of DM2.3308, but gained some ground to close at DM2.3070.

## THE LEX COLUMN

# Barings on the block

Barings is like a luscious plum with a nasty maggot devouring it from within. If its administrators can isolate the maggot, they will find many willing buyers for either the whole plum or its parts. Even so, massive damage has already been done. The value of what remains has been severely impaired and is unlikely to cover the bank's mounting losses.

Even the most valuable asset, the fund management arm, has been damaged. In normal circumstances, it might fetch \$500m-plus on the basis of a multiple of up to 2 per cent of funds under management. Now, though, it seems that it has been contaminated by the broader crisis. If it turns out that client funds were deposited with Barings' banking arm, where they will rank alongside other unsecured creditors, the price would be much lower.

Contaminated fears also affect Barings' emerging markets arm. The bank may have one of the world's best emerging markets securities businesses. But given that Barings' agency originated in Singapore, any buyer would be worried that there may be other nasties lurking. Moreover, post-Mexico, emerging markets are not the go-go business they once were.

There are different concerns over the corporate finance arm. Unless a buyer can secure the support of top staff, the unit's value would evaporate as they defected to other firms. That means much of what any buyer ends up paying will have to be in the form of payments to the staff - though the administrators would at least not have to pay the bankers the bonuses they have just been promised.

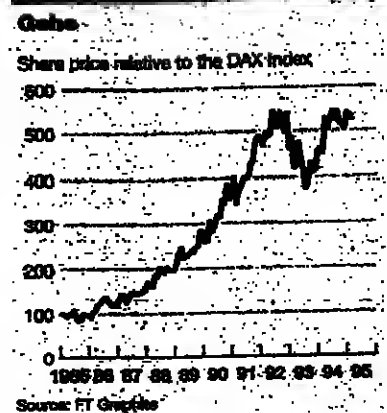
### Futures exchanges

Exponents of futures exchanges are claiming the Barings debacle as something of a victory. Losses of a similar scale in the larger but less transparent over-the-counter market could have left a string of casualties rather than just one. Trades on organised exchanges are backed by collateral, in order to reduce credit risk. As a result, the nightmare of one failure bringing down the entire financial system should be avoided.

In fact, the knock-on effect of Barings' losses does seem to have been contained, although the exchanges may still call for capital, which could strain smaller members. The markets have been shaken, but there is no sign of the apocalyptic financial meltdown feared by regulators.

Nevertheless, the exchanges have no

FT-SE Eurotrack 200:  
(1359.3 (-10.4))



poor performance of peripheral businesses such as distribution and loss-making environmental services. But the valuation differential should be smaller if the non-core activities can be disposed of at no extra cost. If that can be done, Gehe will take a big leap into a third European market after Germany and France - without paying a premium.

AAH management now faces the task of persuading sceptical shareholders that the peripheral businesses have positive value. Many shareholders will be happy to let Gehe take on the risks as well as rewards of owning AAH's portfolio. Closing at 431p yesterday, AAH's shares display hope for a higher offer from another party.

### Italy

Italy's political problems are becoming expensive. The tumbling lira is fuelling inflationary pressure, and encouraging expectations that interest rates must go higher. For a country whose national debt is 25 per cent greater than its gross domestic product, this is proving costly. The yield gap between German and Italian government bonds is now close to 8 percentage points. And the government's financing costs rise by L15,000bn (\$9.1bn) for every 1 percentage point increase in interest charges.

Of course, the collapse of both Barings and the Mexican peso have not helped, encouraging investors to seek a safe haven in the D-Mark. But the lira is vulnerable anyway. The tenuous grip on power of Mr Lamberto Dini, the prime minister, has knocked hopes of achieving his proposed reforms. Meanwhile, Mr Silvio Berlusconi, his predecessor, has demonstrated that he will do anything to win back power. This bodes ill for Italy's fight against inflation.

There is already evidence that the weak lira is pushing up consumer prices. Fiat has raised domestic car prices by 7 per cent this year. And there is the threat that this will start to filter through into wage demands. Yet the government cannot support the currency through interest rates because of the impact on debt repayment. The best way of stopping the downward spiral would be if Mr Berlusconi ceased demanding early elections. Mr Dini would then have the chance for some painful but necessary financial reforms. But at present there are few grounds for optimism.

HBSC seeks strategy, Page 25

**FT WEATHER GUIDE**

**Europe today**

Near gale to gale force westerlies will affect the Norwegian coast. Southern Scandinavia will be quite mild as oceanic air is drawn inland. Cloud over Finland will produce light to moderate snow in most places. A frontal zone over the British Isles and Denmark will give cloud and moderate rain over Northern Ireland and Scotland. The Benelux, Germany and France will be rather dull with moderate to near gale force south-westerly winds. North-west Europe will continue unseasonably mild with afternoon temperatures reaching 10C to 14C.

**Five-day forecast**

A depression over Morocco will dominate eastern Spain, the Balearics and, later, Sardinia, Corsica and southern France as warm African air is drawn north. As a result there will be showers, some with thunder. The depression will cross Italy towards the weekend. Western and northern Europe will continue unsettled but temperatures will gradually drop to seasonal values.

**TODAY'S TEMPERATURES**

Location	Temp	Location	Temp	Location	Temp	Location	Temp
Abu Dhabi	sun 22	Belfast	rain 10	Casablanca	cloudy 11	Paris	cloudy 10
Accra	sun 24	Berlin	drizzle 10	Chicago	showers 13	Geneva	fair 10
Algiers	sun 19	Bombay	cloudy 24	Cologne	drizzle 12	Glasgow	rain 11
Amsterdam	cloudy 12	Buenos Aires	fair 24	Dallas	fair 24	Hamburg	rain 11
Athens	sun 19	Calcutta	cloudy 24	Dakar	fair 24	Heidelberg	rain 11
Atlanta	rain 18	Chennai	cloudy 24	Dhaka	fair 24	Hong Kong	cloudy 14
B. Aires	cloudy 18	Colombo	cloudy 24	Dubai	fair 24	Honolulu	fair 24
Bombay	sun 24	Cairo	sun 24	Dublin	drizzle 13	Interlaken	showers 13
Buenos Aires	cloudy 18	Cardiff	cloudy 10	Edinburgh	rain 10	Jersey	cloudy 10
Calcutta	cloudy 24	Canberra	cloudy 10	Frankfurt	cloudy 10	Kuala Lumpur	sun 24
Cairo	sun 24	Cape Town	cloudy 10	Geneva	fair 10	London	fair 10
Cardiff	cloudy 10	Chennai	cloudy 24	Heidelberg	rain 11	Los Angeles	fair 10
Canberra	cloudy 10	Colombo	cloudy 24	Hong Kong	cloudy 14	Madrid	fair 10
Cape Town	cloudy 10	Cologne	drizzle 12	Honolulu	fair 24	Manila	cloudy 24
Chennai	cloudy 24	Dallas	fair 24	Interlaken	showers 13	Mexico City	fair 24
Chicago	showers 13	Dakar	fair 24	Jersey	cloudy 10	Miami	cloudy 24
Cologne	drizzle 12	Dhaka	fair 24	Kuala Lumpur	sun 24	Montreal	fair 10
Dallas	fair 24	Dubai	fair 24	London	fair 10	Naples	sun 24
Dakar	fair 24	Dublin	drizzle 13	Los Angeles	fair 10	Nassau	cloudy 24
Dhaka	fair 24	Edinburgh	rain 10	Madrid	fair 10	New York	cloudy 24
Dubai	fair 24	Frankfurt	cloudy 10	Manila	cloudy 24	Nice	sun 24
Dublin	drizzle 13	Geneva	fair 10	Mexico City	fair 24	Nicosia	sun 24
Edinburgh	rain 10	Heidelberg	rain 11	Miami	cloudy 24	Osaka	cloudy 24
Frankfurt	cloudy 10	Hong Kong	cloudy 14	Montreal	fair 10	Paris	cloudy 10
Geneva	fair 10	Honolulu	fair 24	Naples	sun 24	Perth	cloudy 24
Heidelberg	rain 11	Interlaken	showers 13	Nassau	cloudy 24	Prague	cloudy 24
Hamburg	rain 11	Jersey	cloudy 10	New York	cloudy 24		
Hang Kong	cloudy 14	Kuala Lumpur	sun 24	Nice	sun 24		
Honolulu	fair 24	London	fair 10	Nicosia	sun 24		
Interlaken	showers 13	Los Angeles	fair 10	Osaka	cloudy 24		
Jersey	cloudy 10	Madrid	fair 10	Paris	cloudy 10		
Kuala Lumpur	sun 24	Manila	cloudy 24	Perth	cloudy 24		
London	fair 10	Mexico City	fair 24	Prague	cloudy 24		
Los Angeles	fair 10	Miami	cloudy 24				
Madrid	fair 10	Montreal	fair 10				
Manila	cloudy 24	Naples	sun 24				
Mexico City	fair 24	Nassau	cloudy 24				
Miami	cloudy 24	New York	cloudy 24				
Montreal	fair 10	Nice	sun 24				
Naples	sun 24	Nicosia	sun 24				
Nassau	cloudy 24	Osaka	cloudy 24				
New York	cloudy 24	Paris	cloudy 10				
Nice	sun 24	Perth	cloudy 24				
Nicosia	sun 24	Prague	cloudy 24				
Osaka	cloudy 24						
Paris	cloudy 10						
Perth	cloudy 24						
Prague	cloudy 24						

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

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Retail update

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# FINANCIAL TIMES COMPANIES & MARKETS

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## IN BRIEF Euro Disney's big bill for advice

Advisers to the financial restructuring last summer of Euro Disney, the Paris-based theme park, received FF400m (\$78m), according to the annual report published yesterday. Page 20

**Alusuisse-Lonza income soars to SF207m**  
Alusuisse-Lonza, the aluminium, fine chemicals and packaging group, has reported 1994 net income of SF207m (\$160m), a 149 per cent surge on with the 1993 result. It forecast a further increase of up to 50 per cent this year. Page 20

**Suntory doubles pre-tax profits**  
Suntory, Japan's leading whisky distiller, has posted a solid increase in earnings for the year to last December. Page 21

**Discounting hampers Kmart recovery**  
Efforts by Kmart, the US retailer, to turn around its ailing discount store operations appeared yesterday to have made little progress as it reported a further deterioration in underlying financial performance in the fourth quarter. Page 22

**Brazil's potential draws Anheuser**  
Antarctica, the Brazilian brewer, described its link-up last week with Anheuser-Busch of the US as a partnership that would "revolutionise the Brazilian beer market". Page 23

**JCI aims at blacks in break-up**  
Johannesburg Consolidated Investments, the South African mining house controlled by Anglo-American Corporation, has formally announced its intention to break the group up into three companies, two of which will be put on the market specifically to attract black investors. Page 24

**Pentos shares trading suspended**  
Trading in Pentos shares was suspended yesterday as the struggling retail group and its advisers attempted to put together a refinancing deal before a (\$87m) bank credit facility expires today. Page 25

**Chemicals share offer oversubscribed**  
The public offer of shares in Albright & Wilson, the chemicals company being spun off by Tenneco of the US, was 3.5 times oversubscribed. Page 25

**New Wembley chief may not be enough**  
Wembley, the debt-burdened stadium group, was yesterday warned that the appointment of a new chairman to replace Sir Brian Wolfson may not be enough to persuade investors to back a (\$190m) refinancing package. Page 25

**Allied offers A\$33m for McLeod**  
A subsidiary of Allied, the department store and international duty-free retailer, yesterday launched a A\$33m (\$24.3m) takeover bid for MS McLeod, the listed Australian company. Page 26

**UK court decision limits Butte \$1bn suits**  
Five of the 77 defendants sued for more than \$1bn by Butte Mining, a London listed company, have been granted injunctions in the UK High Court restraining Butte and Mr David Lloyd-Jacob, its chairman, from taking further action against them in the US. Page 26

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**Chief price changes yesterday**

FRANKFURT (DM)		LONDON (pence)	
AAH	346 + 4.7	AAH	122 + 1.22
Alcoa	229.5 - 4.5	Alcoa	122 + 1.22
Alcoa Nobel	229.5 - 4.5	Alcoa Nobel	122 + 1.22
Albright & Wilson	716 - 10	Albright & Wilson	122 + 1.22
Alkermes	1222 - 11	Alkermes	122 + 1.22
Alusuisse-Lonza	394.5 - 11	Alusuisse-Lonza	122 + 1.22
Anglo American	2094 + 19	Anglo American	122 + 1.22
Anheuser-Busch	2094 + 19	Anheuser-Busch	122 + 1.22
Antarctica	2094 + 19	Antarctica	122 + 1.22
Avon	2094 + 19	Avon	122 + 1.22
Avon	2094 + 19	Avon	122 + 1.22
Bankers Life	2094 + 19	Bankers Life	122 + 1.22
Barings	2094 + 19	Barings	122 + 1.22
Bell Atlantic	2094 + 19	Bell Atlantic	122 + 1.22
BSI	2094 + 19	BSI	122 + 1.22
Boral	2094 + 19	Boral	122 + 1.22
British Aerospace	2094 + 19	British Aerospace	122 + 1.22
Bunge	2094 + 19	Bunge	122 + 1.22
Bulle Mining	2094 + 19	Bulle Mining	122 + 1.22
CCP Insurance	2094 + 19	CCP Insurance	122 + 1.22
Cable & Wireless	2094 + 19	Cable & Wireless	122 + 1.22
Casades Paperboard	2094 + 19	Casades Paperboard	122 + 1.22
Costa Vio	2094 + 19	Costa Vio	122 + 1.22
Corsica	2094 + 19	Corsica	122 + 1.22
Calsonic	2094 + 19	Calsonic	122 + 1.22
Deutsche Bank	2094 + 19	Deutsche Bank	122 + 1.22
Deutsche Telekom	2094 + 19	Deutsche Telekom	122 + 1.22
Deutsche Telekom	2094 + 19	Deutsche Telekom	122 + 1.22
ENR-Chemie	2094 + 19	ENR-Chemie	122 + 1.22
Enron	2094 + 19	Enron	122 + 1.22
Enron	2094 + 19	Enron	122 + 1.22
Enron	2094 + 19	Enron	122 + 1.22
Enron	2094 + 19	Enron	122 + 1.22

## Salomon takes \$61m extra charge

By Maggie Urry in New York

Salomon, parant of Salomon Brothers, the US investment bank, has taken a further \$61m pre-tax charge against its 1994 profits. This is in addition to the \$27m pre-tax charge for accounting errors which shocked Wall Street when Salomon revealed them earlier this month.

The new charge increases Salomon's 1994 pre-tax loss from the previously reported \$770m to \$831m, and its net loss per share from \$3.95 to \$4.31.

Salomon also revealed it had been misclassifying some revenues for years, although this error had no net effect on profits. Arthur Andersen, which has been Salomon's worldwide auditor for several years, could lose Salomon as a client, the company hinted.

Mr Robert Denham, Salomon's chairman and chief executive, said: "Our external auditors have stated to us that these items were not uncovered in prior years' audits. Accordingly, the board will look with particular care this

year at the designation of outside auditors."

The extra charge relates to a Yen swap transaction in 1988 and should have been half the size but for the subsequent rise in the Yen. Salomon said it thought the transaction had been accounted for in 1991. It appears the position was overlooked when Salomon reviewed its group accounts.

The classification error led to \$328m of interest income being included as a principal gain in 1994, and \$182m in 1993. Salomon said its computer did not accu-

ately differentiate between the two types of revenue when some non-dollar securities, mainly Mexican, were redeemed. Too much of the gain was recorded as a capital gain.

Total revenues remain the same but within that the interest and dividend amount has risen and the principal transactions line has reduced by the same amount. The differentiation between the two types of revenue is required by the regulators, although it makes no difference to Salomon's business.

Mr David Fisher, Salomon's financial controller, is moving to Tampa to run the back-office operation. This provides the computer support for settling all Salomon's domestic trades and its global foreign exchange and swaps activities.

In the past, insiders said, the Tampa organisation concentrated on the firm's trading needs rather than its accounting requirements. With Mr Fisher, an accountant, at its head the emphasis would change, they said.

## German drugs group launches UK hostile bid

By David Blackwell in London

Gehe, the German pharmaceuticals wholesaler, yesterday launched a hostile \$377.4m (\$288m) cash bid for AAH, the UK drugs distributor and retailer.

It has offered 42p a share for AAH, which forecast a fall in profits this year after setbacks in its environmental services division. The offer represented a premium of almost 36 per cent to Friday's closing price.

AAH rejected the offer as "opportunistic". The shares rose 122p to close at 431p. City analysts suggested that the offer was finely pitched. AAH, which has annual sales of £1.6m, has about 80 per cent of the UK's pharmaceuticals wholesale market and a chain of 300 pharmacies. Unichem, its main rival in the UK, is roughly comparable and has a market capitalisation of £422m.

Mr Dieter Kämmerer, chairman of Gehe's management board, said yesterday that the UK seemed a natural target for expansion following the 1993 FF2.6bn (\$502m) purchase of Office Commercial Pharmaceutique in France.

Earlier this month AAH warned of a further downturn in trading at the environmental services division, which pushed shares down 39p to 282p.

The group, which reported pre-tax profits of £42m last year, said yesterday that "this opportunistic and uncalculated offer underestimates AAH and its potential". Gehe has a market capitalisation of DM3.3bn (\$2.5bn) and has grown rapidly over the past five years, with turnover up from DM3.8bn in 1990 to DM15bn last year - DM15bn from wholesaling. Background, Page 25

## Profits reach £3.2bn ■ Midland up 7% ■ Losses in securities

By Alison Smith in London

HSBC Holdings, parent company of Midland Bank, weathered a sharp drop in profits from dealing in interest rate derivatives and securities last year, when pre-tax profits rose 23 per cent.

The pre-tax total reached £3.17bn, (\$5bn), up from £2.56bn in 1993, as cuts in bad debt provisions offset the decline in dealing profits - including £111m losses on securities trading.

Mr John Bond, group chief executive, said yesterday that the group would continue to watch developments at Barings, the collapsed UK merchant bank.

He described its asset management arm as "interesting", but said that HSBC had no acquisition in mind at present, and regarded its main management tasks as increasing its business in the Asia-Pacific region and completing the integration of Midland Bank, acquired in 1992.

Both he and Sir William Purves, HSBC's chairman, said the group had strong controls which would have prevented what happened at Barings. "You can't prevent unauthorised transactions. But with cross checks and short management times, you can make sure that if there are such activities they are found out," Sir William said.

Dealing profits at HSBC fell by more than three-quarters to £261m, as traders in interest rate derivatives and securities at Midland and Hongkong Bank found conditions difficult after the series of interest rate rises. Within this total, the £111m of securities trading losses compared with a profit of £290m in 1993. Profits from foreign exchange dealing, which is supported by a more regular flow of business, held up better at \$343m, against \$377m.

Mr Bond said that although the group had lost £33m in proprietary position taking in interest rate derivatives and securities, compared with a profit of £19m in 1993, almost all of this had been incurred in the first half.

## HSBC shrugs off a dip in derivatives dealing



Challenging times: John Bond, chief executive, says HSBC is moving away from proprietary trading

"We have retained in our business until we see a clear trend," Mr Bond said, pointing out that HSBC had reduced by £5bn the amount of securities it holds as assets. It is trying to position the business more around customer deals and less around proprietary position taking.

He described the outlook for 1995 as "challenging", but said that HSBC was well placed for further growth, particularly in the Asia-Pacific area. Elsewhere it was a matter of "market share rather than market growth".

The greatest contribution to HSBC profits came from Hongkong Bank and its subsidiaries

which produced pre-tax profits of HK\$25.3bn (£2.1bn), against HK\$19.5bn. The 28 per cent rise included an exceptional profit of HK\$4.56bn.

Mr John Gray, Hongkong Bank's chief executive, said the outlook for 1995 was "mixed": competitive pressures remained strong, financial markets were still volatile and "a modest rise in provisions" could be expected after last year's low levels. Hongkong Bank's charge for doubtful debts was slashed from HK\$3.55bn in 1993 to HK\$1.74m.

Midland Bank, the UK high street banking arm of HSBC, produced pre-tax profits up 7 per

cent at £905m, as the fall in provisions for bad debts was offset by the drop in dealing profits.

For HSBC as a whole, the drop in operating income together with a 3 per cent rise in expenses lifted the cost/income ratio to 59.9 per cent, from 55.2 per cent. HSBC raised its final dividend to 15p to take the total to 27p, up 15 per cent.

The ratio of core capital to risk-weighted assets rose to 9.1 per cent, against 7.9 per cent. Earnings per share advanced from 71.15p to 79.6p, or from 68.77p to 76.4p excluding exceptional. Midland Bank details, Page 26; Lex, Page 18

## Emu spells 'the good life' for investment bankers

Investment banks stand to profit handsomely from the changes in European capital markets likely to follow monetary union, believes Mr Rolf Brenner, the director of Deutsche Bank responsible for capital markets.

Like his colleagues at Germany's biggest bank, he is convinced Emu will occur "for the well-being of Europeans". Mr Ulrich Cartellieri, a fellow Deutsche Bank director, said recently: "The need for, and the benefits of, a European monetary union are overwhelming".

For Deutsche Bank, therefore, the question is not whether Emu will take place - most likely in 1999 rather than 1997 - but how to react when it does. "The question investment banks have to respond to is what happens to capital markets under the Emu regime?" Mr Brenner says.

While equity trading will be relatively unchanged, "fixed income is much more complicated. There will still be outstanding government paper of the member countries, but coupons will vary widely from a relatively low level in Germany to relatively high ones in Italy, Spain and maybe Portugal."

On the day a single exchange rate is fixed, "quite obviously outstanding issues have to adapt". Rapid calculations will be needed to get prices in the old currency and the new European one. "It will be a time for fast thinking mathematicians and arbitrageurs."

## Andrew Fisher talks to Deutsche Bank's director for capital markets

This transitional period could last some years. Issuing new money is a complicated process. Capital markets will have to prepare. "The change in software will be immensely expensive and take years of preparation. Every programme will have to be rewritten into the new currency. Computer programs will have to be run for a considerable time in parallel."

Once the new currency - which he calls the Eurofranc - is in being, most bond issues will still come from national governments. "It will still be the German finance minister who issues government paper for the federal government of Germany."

According to Merrill Lynch, the US investment house, the German bond market the third largest after the US and Japan - totalled DM3,690bn (then \$2,120bn) at the end of 1993. Government and public sector bonds accounted for 46 per cent of this against 80 per cent in Italy (total market \$787bn) and 89 per cent in France (\$651bn).

But will European government issues all have the same coupon and price under a unified currency? "No. I am pretty convinced that the market will still differentiate between the credit standing of, say, the Italian government on the one hand and the German government on the other."

This will be so, even if markets perceive that any government which falls into financial difficulties will be bailed out as a matter of last resort. "Legally, this should definitely not be so. There's no legal obligation for the European Commission to

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## INTERNATIONAL COMPANIES AND FINANCE

## Alusuisse-Lonza income soars to SFr207m for year

By Ian Rodger in Zurich

Alusuisse-Lonza, the aluminium, fine chemicals and packaging group, has reported 1994 net income of SFr207m (\$165m), a 149 per cent surge on with the 1993 result. It forecast a further increase of up to 50 per cent this year.

As previously announced, the directors are proposing a partial restoration of the dividend, to SFr15 from SFr12.50 a share.

The dividend was cut from SFr17.50 in 1991 when earnings collapsed and the group undertook a restructuring programme to reduce its dependence on volatile aluminium and chemical commodities.

Mr Theodor Tschopp, chief executive, said yesterday the restructuring was now completed.

Through a series of acquisitions and disposals, the group

had achieved a balanced portfolio of three inter-related divisions, all aimed at helping their industrial customers improve the value of their products, he said.

Group sales last year rose 21 per cent to SFr7.5bn, and operating profit doubled to SFr555m.

The packaging division, bolstered by the acquisition of Lawson-Mardon a year ago, showed the greatest sales growth, to SFr2.8bn from SFr1.3bn, and surpassed the two others in size.

Aluminium division sales rose 11.9 per cent to SFr2.5bn, while chemicals sales advanced 6.7 per cent to SFr1.6bn.

The chemicals division achieved the best operating margin, 11.1 per cent, followed by the packaging division with 8.5 per cent and the aluminium division at 6.2 per cent.

The packaging division achieved a 20.5 per cent return on capital, while the chemicals and aluminium divisions made returns of 13.6 per cent and 12.4 per cent respectively.

Group net debt rose SFr228m to SFr1.5bn at year-end. Shareholders' funds were down 4 per cent to SFr1.7bn, due to goodwill write-offs.

Mr Tschopp said the group sought further profitability improvement through internal investments and suitable acquisitions for its three divisions. He ruled out the hiring of any of the divisions, but said strategic alliances could strengthen their international market positions.

He forecast that net income would jump by about 50 per cent this year, because of a further substantial increase in operating earnings and reduced extraordinary charges.

## Euro Disney advisers received FFr406m

By Andrew Jack in Paris

Advisers to the financial restructuring last summer of Euro Disney, operator of the Paris-based theme park, received FFr406m (\$78m), according to the annual report published yesterday.

Banking and professional advisory charges accounted for most of the net exceptional charges of FFr515m during the 12 months to September 30 1994, the accounts show.

However, the total also included FFr1.2bn in "payable forgiveness", or amounts owed by the company which were waived as part of the restructuring. These were offset by a FFr1.3bn reduction in the value of the group's assets. There are also FFr103m in provisions relating to legal costs.

A reconciliation at the end of the accounts shows that under US GAAP, the US accounting standards, the group's FFr1.8bn loss last year deepens to a deficit of FFr1.1bn, while shareholders' equity is reduced from FFr5.5bn to FFr4.4bn.

In line with other French companies, Euro Disney refuses to provide detailed information on remuneration of its directors, although the accounts show a total FFr1m was paid to the six members of the supervisory board.

The report shows that 67 employees were granted 32.8m share options in the group last November, at an average market exercise price of FFr7.95 a share. These are valid for 10 years and exercisable from next November.

The accounts show a FFr232m payment to SNCF, the French state-owned railway company, as a contribution to the high-speed rail station opened within the grounds of the EuroDisneyland park in May last year.

The annual report confirms that under the terms of the financial restructuring, Euro Disney is not required to pay any royalties to the Walt Disney company until 2003, and then at half-rate until 2003, its last payment in 1993 was for FFr83m.

## Portucel to sell 40% of pulp unit

By Peter Wise in Lisbon

Portucel, the paper, pulp and packaging group that accounts for 2 per cent of Portugal's exports, is to privatise 40 per cent of Portucel-Industrial, its main pulp production division, through a global offer in June.

Mr Jorge Godinho, Portucel president, said the group would also invite bids for 100 per cent of Gescartão, its brown paper and packaging division, in April. The two divisions account for 92 per cent of the group's total sales.

Salomon Brothers and two Portuguese banks, Banco Fomento e Exterior and Banco Português de Investimento, are to

be global co-ordinators for the Portucel offer, planned to be made simultaneously in Lisbon, London and New York by June 15.

Portucel-I, accounting for 60 per cent of group sales, is the world's second largest producer of bleached eucalyptus pulp, used to make high-quality printing paper. It has 8.14 per cent share of the international market. Total assets were E5109.4m (\$704.3m) in December 1993.

Portucel plans to split the offer into domestic and international tranches, the latter subdivided between London and New York. The separate tranches are to be co-ordinated

by BFF and BPI in Lisbon. Union Bank of Switzerland in London and Salomon Brothers in New York.

Portucel-I's two plants in Setúbal and Cacia together have an annual capacity of 580,000 tons. It owns 60 per cent of Portucel Florestal, which manages 100,000 hectares of forest, producing 450,000 cubic metres of eucalyptus a year and directly supplying 20 per cent of Portucel-I's raw material.

The Portucel group is also the leading shareholder in the paper producer Inapa, which acquires 35 per cent of the Setúbal pulp plant's production through a short pipeline link.

Because of the importance of this vertically-integrated industrial sector to the economy, Portugal is not expected to relinquish full control of the Portucel group. However, the privatisation of further holdings will be considered over the medium term.

Gescartão, which is to be sold to a single buyer, is the holding company for Portucel Vianna, with an annual production of 220,000 tons of industrial brown paper; Portucel Embalagem, which manufactures corrugated cardboard; and Portucel Recicla, which produces recycled paper for making corrugated cardboard.

## State rules out Groupe Bull sale problems

By John Ridding in Paris

The French government yesterday rejected claims that the privatisation timetable for Groupe Bull had run into difficulties and said it did not foresee problems in the sale process of the state-owned computer group.

According to a French newspaper report, the government had informed potential candidates seeking to buy stakes in the computer group of a delay in the process. It claimed the delay could reflect the difficulties of the potential bidders in co-operating with new or existing shareholders.

A spokesman at the French economy ministry said, however, that the government had not yet informed potential bidders of the launch of the final stage of the process.

Under this process, the bidders will be informed of a five-day period in which they have to make final, binding offers. The government then has 60 days to decide on Bull's future shareholding structure.

## Smuggling crackdown helps lift Tabacalera

By Tom Burns in Madrid

Tabacalera, Spain's state-controlled tobacco group, said pre-tax group profits more than doubled last year, to Ptas17.4bn (\$136m) from Ptas1.4bn in 1993. The rise was the result of a crackdown on smuggling that prompted improved premium brand sales, of sharply lowered costs and of reduced debt servicing charges.

Tabacalera, with many foreign institutions among its shareholders, is 52 per cent state-owned, and a candidate for privatisation.

Revenue from tobacco sales rose 23.8 per cent to Ptas17.4bn, although tobacco consumption is dropping by about 1 per cent a year in Spain. Mr Pedro Pérez, Tabacalera chairman, said sales of contraband tobacco were estimated to have fallen by 23 per cent last year, about the same as a year earlier. He attributed this to stepped-up policing of contraband and increased penalties for those selling smuggled tobacco.

Mr Pérez said that last year

had marked "a transfer from the illegal tobacco market to the legal one". Indicating that there was room for further sales growth as contraband measures improved, he said an estimated 500m packs of cigarettes were sold illegally last year, 150m less than in 1993, and that 8.5m packs had been seized by customs authorities.

Capital gains realised by Tabacalera from the 1993 sale of its foods unit Royal Brands to the US group Nabisco helped absorb a labour shake-out which last year reduced the group's employees by nearly 10 per cent to 7,300, mostly through voluntary early retirement schemes.

Mr Pérez said widespread staff reductions had been more economically efficient than closures among the group's 14 production plants.

The reduced labour force cut personnel costs at Tabacalera's parent company by 5.4 per cent to Ptas1.9bn, and promotional expenditure was trimmed by 8.5 per cent to Ptas23.5bn. Mr Pérez said he was seeking a further 4 per cent cut in costs.

## Repola turns in sharp improvement

By Hugh Carnegie in Stockholm

A recovery in demand in the forestry industry, and sharply lower borrowing costs drove Repola, Finland's largest industrial group, to a Fm1.68bn (\$358m) pre-tax profit in 1994.

The result was a dramatic improvement on 1993, when pre-tax profits (restated to conform with updated accounting systems) reached just Fm29m.

Repola, which includes United Paper Mills, the forestry products group, and Rauma, the engineering group, said it benefited from rising sales for both forestry

products and forestry machines.

Turnover rose to Fm28.6bn from Fm27bn, while operating profits increased to Fm3.3bn from Fm2.5bn.

However, the bottom line was further enhanced by a swing to a Fm31m surplus from net foreign exchange gains on foreign loans, compared with a loss in 1993 of Fm500m, and a drop in financial expenses to Fm1.23bn from Fm1.8bn.

Repola said it expected to improve its performance in 1995, as it predicted sustained strong demand for forestry products and higher paper prices. It announced an

increase in the annual dividend to Fm2.50 per share from Fm1.00 per share last year.

Mr Heikki Hakala, executive vice-president, said the key to 1995 would be the performance of the Finnish markka.

In 1994, UPM, the dominant division in the group, suffered a fall in average markka prices for paper because of a strengthening of the currency, in spite of increases in a number of paper grade prices in the second part of the year.

If the markka remains stable, UPM will reap the benefits of price increases this year, as it is already working at 95 per cent capacity.

UPM's operating profit rose to Fm2.6bn last year from Fm2.2bn, on sales up to Fm19.1bn from Fm17.8bn last year.

Rauma, meanwhile, posted a rise in operating profits to Fm4.6bn from Fm3.4bn, on turnover of Fm8.5bn compared with Fm7.7bn in 1993.

Mr Hakala said Repola was continuing with its preparations to float up to 30 per cent of Rauma to domestic and international investors.

However, he declined to say when the issue, on the Helsinki Stock Exchange, would be carried out.

## Swedish investor moves to buy rest of Proventus for SKr1.4bn

By Hugh Carnegie

Mr Robert Weil, a Swedish private investor, yesterday moved to buy out for SKr1.4bn (\$192m) the 63 per cent he does not already control of Proventus, an investment company which includes in its portfolio Puma, the German sports shoe maker.

Weil invest, controlled by Mr Weil, offered a bid to Proventus shareholders equivalent to SKr75 per share, including SKr53.50 in cash and the remainder in two-year debentures with a nominal value of SKr21.50 and carrying annual

interest of SKr15.3 per cent. The bid represents a 17 per cent premium over the Proventus share price of SKr64 on February 24.

Proventus has specialised in buying problem companies for restructuring and eventual refloation or resale. Its main focus at present is Aramis, a sporting goods company which controls Puma, Bionline, the second biggest supplier of golf shoes in the US, and Tretorn, a leading tennis ball maker.

Proventus, which completed a full takeover of Aramis this year, steered the company

back to profits last year and spun off Monark Stigs bicycles and Abu-Garcia, a fishing equipment maker, into separate quoted companies in which Proventus retains majority shareholdings. The Proventus Abu-Garcia stake is now up for sale.

However, Proventus has consistently traded at a discount to its net asset value. Mr Weil, who has built up the Weil Invest stake in Proventus to 43 per cent from 26 per cent over the past three years, said there was no longer any justification for Proventus to be listed.

## BIL GT reports 21% rise in net to SFr171m

By Ian Rodger in Zurich

BIL GT, the fund management group built around the Bank in Liechtenstein, has reported a 21 per cent jump in net income, to SFr171m (\$136m), in 1994 in spite of difficult market conditions in the second half of the year.

The group, owned almost entirely by the Liechtenstein royal family, achieved a return on equity of 17.2 per cent, and the directors have proposed an 18 per cent dividend rise to SFr20 per share or participation certificate.

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INTERNATIONAL COMPANIES AND FINANCE

## Suntory doubles pre-tax profits despite flat sales

By Eniko Terazono in Tokyo

Suntory, Japan's leading whiskey distiller, has posted a solid increase in earnings for the year to last December. Unconsolidated pre-tax profits doubled to ¥18.6bn (\$120.5m), in spite of a 0.5 per cent decline in sales to ¥733.2bn. Operating profits climbed 30.1 per cent to ¥38bn, and net profits rose 63.6 per cent to ¥7bn.

The company's food and non-alcoholic beverage sales rose 20.4 per cent to ¥176.6bn, supported by brisk canned tea and coffee sales. Distilled liquor sales, however, fell 5.5 per cent to ¥351.9bn, while beer sales also slipped, by 8.1 per cent.

For the current year to December, Suntory expects a 21.3 per cent rise in pre-tax

profits, to ¥29bn, on a 7.7 per cent increase in sales to ¥790bn.

The company said it was trying to resolve a rift with Dai-ichi, the leading retailer. Dai-ichi last week withdrew Suntory products from its shelves without explanation.

Some analysts believe it was trying to make shelf space for old stocks of imported beers, while others maintained the action stemmed from Suntory's agreement to supply Ito-Yokado, another leading supermarket chain, with cheap imported beers.

Mr Shinichi Torii, Suntory president, said he was trying to set up a meeting with Mr Isao Nakasuchi, chairman and president of Dai-ichi. He described the retail group as a long-standing and important customer.

## Solid advances at LG businesses

By John Burton in Seoul

The two main businesses of South Korea's LG group, formerly Lucky-Goldstar, reported increased profits for 1994.

LG Chemical, the new name for Lucky, reported an advance in net profits of 106 per cent, to Won91.6bn (\$116.4m). It attributed the rise to a recovery in its petrochemicals business, which accounts for 40 per cent of sales.

Turnover rose 28 per cent to Won2.830bn.

The company's other main product areas include construction material and consumer goods.

It has recently diversified into fine chemicals and phar-

maceuticals, both of which posted profits for the first time. LG Electronics, formerly Goldstar, said profits rose 59 per cent to Won104.6bn, because of increased demand for consumer electronics in the domestic market and abroad.

Sales climbed 19 per cent to Won5.150bn.

The results, however, were slightly smaller than preliminary estimates two weeks ago, when the company predicted profits of Won130bn and sales of Won5.300bn for 1994.

LG Electronics last year became Korea's biggest consumer electronics company by overtaking Samsung Electronics, which had consumer product sales of Won4.330bn.

## Windfall gains clean up Korean banks' bad books

The sector is in better shape, but state liberalisation could force a restructuring, writes John Burton

The 1994 results from South Korea's banks provide an encouraging sign that the troubled sector is on the rebound.

The banks took advantage of large capital gains from last year's booming Seoul bourse to slash bad loans, while lifting net profits.

Their improved performance bodes well for Korea's financial liberalisation programme, which has been held back by concerns that rapid deregulation could lead to the collapse of some banks.

However, doubts remain as to whether Korean banks can repeat their success this year as the stock market turns sour. "The large capital gains were fortuitous, but they do not provide a practical and sustainable solution to the banks' structural problems," said Mr John Wadell, regional Asian banking analyst for J.P. Morgan Securities in Hong Kong.

Korean bankers hope that increased loan demand, stemming from rapid industrial expansion and higher interest rates, will balance any downturn in earnings from stock investments.

Net profits for the country's 10 leading commercial banks rose 25 per cent last year, after capital gains from stocks

almost doubled and operating profits rose 68 per cent as rationalisation reduced administrative costs.

The stock market rally coincided with a stricter government requirement that the banks increase bad-debt provisions as part of an effort to clean up their balance sheets ahead of full-scale financial liberalisation in 1995.

The nation's 14 national and 10 provincial banks used the capital gains windfall to write off 38 per cent of bad loans, which totalled Won2.930bn (\$3.7bn) at the end of 1993. The ratio of non-performing loans to total lending fell from 1.8 per cent to 1 per cent, the lowest level since the late 1980s.

The bad-loans problems are particularly severe for the nation's five oldest banks, which have been forced by the government during the past three decades to make subsidised loans to, at times, risky industrial ventures favoured by the state.

Other problems confront Korean banks, which have been tightly regulated: they are overstuffed, with low productivity rates per employee, while their branch networks are too large.

The troubles were illustrated by the Commercial Bank of

South Korean banks' financial results: 1994				
	Net profit (Won bn)	Change on year (%)	Non-performing loans (Won bn)	% of total lending
Cho Hung Bank	196.3	+40.0	229.4	1.20
Commercial Bank of Korea	54.5	+526.0	107.0	0.60
Korea First Bank	131.3	-15.0	219.7	0.90
Hand Bank	128.2	+8.0	189.0	0.80
Bank of Seoul	52.1	+415.5	402.4	2.30
Korea Exchange Bank	100.3	+20.0	237.7	1.00
Shinhan Bank	153.2	+15.0	105.7	0.60
KorAm Bank	24.0	+76.5	24.7	0.50
Hana Bank	40.8	+25.5	2.3	0.04
Bosam Bank	32.8	+5.0	9.2	0.10

Source: Office of Bank Supervision

Korea, one of the country's largest. CBK was shaken last spring after Hanyang Construction, one of its main borrowers, defaulted on loans of Won441bn. The government assisted in the rescue by having the Korea Housing Corporation take over Hanyang and promise to repay Won341bn of the loans over 10 years.

CBK handled the remainder of the Hanyang debt, writing off an unprecedented Won347bn in bad loans. Its actions helped it reduce its bad-loan ratio from 4.6 per cent of total lending to 0.6 per cent.

CBK still managed to report the sharpest increase in net earnings among the main banks - 526 per cent to Won54.5bn - as its pared down

its operations to boost operating profits by 149 per cent to Won598bn. It sold its Sangup securities business to Korea First Bank for Won350bn and cut more than 600 jobs.

The Bank of Seoul was able to post a 415 per cent rise in net earnings, to Won53bn, because of similar rationalisation. Operating profits grew 88 per cent to Won511bn as it cut 600 jobs and closed six offices.

Although BoS wrote off bad loans of Won202bn, its non-performing loans rose 6 per cent to Won402bn, leaving it with the highest ratio of bad loans at 2.3 per cent.

Other big banks, including Korea First, Cho Hung and Korea Exchange, almost halved their bad loans through write-offs last year.

In spite of the improvements,

"this year could prove tough for the banks. They will have to work harder to make money than in the past," said Ms Anne Lowell, banking analyst for W.I. Carr Securities in Seoul. She estimates that capital gains from stock investments this year could be half the Won1.75bn posted by banks in 1994.

However, the banks may be able to boost profits by making lower loan-loss provisions after the aggressive debt-reduction of last year. BZW Securities in Seoul says provisions could fall by 40 per cent in 1995.

Moreover, loan demand is expected to be strong, as companies continue to expand production capacity to benefit from Korea's export boom. Analysts are divided on whether recent deregulation of

interest rates will improve profit margins on loans, but a tighter monetary policy should also raise interest rates.

Challenges remain for Korean banks as they prepare for the further opening of the domestic financial market.

They will be required to reveal the full extent of their non-performing loan burden, according to a broader definition that would include loans on which interest has not been paid for six months or more.

Defaulted loans, or loans with no interest payments and lacking adequate collateral, are now considered bad loans.

The central bank's office of bank supervision estimates the more broadly-defined non-performing loans total at more than Won10,000bn, against the current Won1,650bn in bad loans.

The banks will eventually have to commit more loan-loss reserves, while fulfilling a stricter capital adequacy ratio, of 8 per cent, by the end of 1995. The renewed financial pressure is likely to force a restructuring of the industry, with mergers leading to the creation of larger institutions.

The government, which is privatising the last four banks still under state control, is expected to issue guidelines soon on the reorganisation.

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FINANCIAL TIMES

Information

Morgan Grenfell Group plc  
US\$200,000,000  
Undated primary capital  
floating rate notes

For the interest period 28 February 1995 to 31 August 1995 the rate of interest will be 6.8125% per annum. The interest payable on 31 August 1995 will be US\$348.19 per US\$10,000 note and US\$3,704.86 per US\$250,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

First Bank System, Inc.  
US\$200,000,000  
Subordinated floating rate notes due 2010

Notice is hereby given that for the interest period 28 February 1995 to 31 May 1995 the notes will carry an interest rate of 6.375% per annum and that the interest payable on the relevant interest payment date 31 May 1995 will amount to US\$162.92 per US\$10,000 note and US\$4,072.92 per US\$250,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

Wells Fargo & Company  
US\$200,000,000  
Floating rate subordinated notes due 2000

The notes will bear interest at 6.25% per annum for the interest period 28 February 1995 to 31 March 1995. Interest payable on 31 March 1995 will amount to US\$53.82 per US\$10,000 and US\$269.10 per US\$250,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

TSB Hill Samuel Bank Holding Company Plc  
(Formerly Hill Samuel Group plc)

US\$30,000,000  
Floating rate notes due 1996

For the interest period from 28 February 1995 to 31 August 1995 the notes will carry an interest rate of 6.625% per annum. Interest payable on 31 August 1995 against Coupon No.23 will be US\$338.61

Agent: Morgan Guaranty Trust Company

JPMorgan

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London STOCK EXCHANGE



INTERNATIONAL COMPANIES AND FINANCE

# Discounting continues to hamper Kmart recovery

By Richard Tomkins  
in New York

Efforts by Kmart, the US retailer, to turn around its ailing discount store operations appeared yesterday to have made little progress as it reported a further deterioration in underlying financial performance in the fourth quarter.

Kmart said it made net income of \$145m, or 31 cents a share, in the period to January. This compares with a net loss of \$1.2bn, or \$2.61, last time. However, the result for the comparable period included a restructuring charge of \$1.35bn before tax.

Excluding this charge, and stripping out a \$166m pre-tax gain in the latest quarter from the sale of stakes in OfficeMax and The Sports Authority, operating income on continuing operations fell still further,

to \$113m from the depressed level of \$37m last time.

It was the eighth consecutive quarter in which the company's financial performance had worsened. The shares, which have recently found support from the dividend yield and surges of bid speculation, shed 3% to \$13 in early trading.

Revenues on continuing operations rose 8 per cent to \$10.4bn. For the full year, the company reported net income of \$296m compared with net losses of \$974m last time.

Although revenues rose, profits fell because Kmart had to sell so many goods at marked-down prices. The company said this was partly because of tough price competition from other retailers, and partly because demand for winter clothing had been hit by unusually mild weather.

The gross margin for the

year fell from 25 per cent to 23.6 per cent, with most of the pressure coming in the second half. Kmart said a more aggressive policy on discontinued and seasonal merchandise cost it \$171m in gross profits in the fourth quarter.

Mr Joseph Antonini, the chief executive who was stripped of the chairmanship last month, said the company was "disappointed" with the year's results. However, it said it entered 1995 with a strong commitment to reduce costs and improve financial performance.

A month ago, US credit rating agency Moody's Investors Service lowered its ratings on Kmart's debt, citing its "remote outlook for rapid recovery".

Earlier this month, Kmart formed a new team of five senior executives to revitalise the discount store operations.

# Conseco to buy out life insurance affiliates

By Richard Waters  
in New York

Conseco, the US insurance group, yesterday announced its intention to buy the outstanding shares in two of its life insurance affiliates for a total of \$727m in cash.

The announcement reverses a plan unveiled last summer, when Conseco had said that it was exploring a sale of its holdings in the two companies to help finance a bid for Kemper, another US insurance and financial services group.

Conseco abandoned that bid after a sharp fall in its own share price, which undermined the value of its offer, and after it was apparently unable to find buyers willing to pay what it wanted for the two insurance holdings.

The two companies are Bankers Life, which writes individual health insurance policies, and CCP Insurance, which sells mainly annuities and employee benefit products. Conseco said it already controlled 49.4 per cent of CCP's 23.4m shares, and 60.4 per cent of Bankers Life's 52.8m shares.

Conseco said it would present its offer formally to both companies on Thursday. Its bid would value Bankers Life shares at \$22 each, and CCP shares at \$22.50 each. The offers need the support of a majority of each company's shareholders, excluding Conseco.

The shares of all three companies climbed after the announcement. During morning trading, CCP rose 3 1/4 to \$20, while Bankers Life climbed \$2 to \$20. Shares in Conseco, meanwhile, gained 3/4 to \$35 1/2.

# Brazil's potential draws Anheuser

Several global brewers are eyeing the market, writes Angus Foster

Antarctica, the Brazilian brewer, described its link-up last week with Anheuser-Busch of the US as a partnership that would "revolutionise the Brazilian beer market". Antarctica, whose advertising uses the slogan "national passion" with images of samba, music and football, may have got carried away slightly, but the deal will certainly reinvigorate the company.

The link will also speed up the entry of new brands into the Brazilian beer market which, following growth of 15 per cent last year, is close to overtaking the UK as the world's fifth largest. After being overlooked for many years because of its economic problems, Anheuser's interest in Brazil could also prompt other international brewers to set up in what is, after China, the world's fastest growing main market.

In a complex deal, Anheuser's international subsidiary will pay about \$105m for a 10 per cent stake in a company to be formed to own Antarctica's operating assets. Antarctica, founded by German immigrants in 1885 and now one of Brazil's two main brewers, is presently 87 per cent owned by a foundation and has non-brewing assets which will be split off. Anheuser has an option to increase its stake in the new company to 29.7 per cent.

The new company and Anheuser will also set up a joint venture to produce and distribute Budweiser in Brazil.

Further joint distribution and marketing projects are possible and Antarctica is particularly keen on lifting exports of its Guarana fruit drink using Anheuser's international distribution.

Anheuser has been looking for a partner in Brazil for over a year. It first started talking with Brahma, Antarctica's arch rival and the world's sixth largest brewer, but the discussions fell through.

Anheuser's interest in Brazil reflects the company's desire to counter near-stagnant volumes at home by spreading into expanding markets outside the US, preferably through strategic alliances. In late 1993 it took a 17.7 per cent stake in Grupo Modelo, Mexico's biggest brewer.

The enthusiasm for Brazil reflects its potential: the average Brazilian drinks 46 litres of beer a year, about half the 90 litres consumed in the US. Brazil's low land and labour costs also make it one of the lowest cost producers in the world. The factory cost of a hectolitre of Brazilian beer is about \$26, compared to \$60 in the US and \$124 in Holland.

Much of this advantage is lost through beer taxes, which are possibly the most punishing in the world, but margins are still very healthy. Antarctica made net profits of \$132.7m on sales of \$1.5bn in 1993, the latest figures available, despite a price war with Brahma which depressed margins further.

Brazil's other attraction is that the market was, until 1990, stagnant. The removal of price controls that year allowed Brahma and Antarctica, whose main brands each control slightly more than 30 per cent of the market, to lift prices and renew investment. Brahma, taken over by an aggressive bank, started investing heavily in marketing and exports.

Antarctica was at first slow to react, in keeping with its reputation for being bureaucratic and production-led rather than sales-led. Once its market share started falling, dropping from 40 to 31 per cent between 1989 and 1993, it did the company start to act. It has simplified its group structure, reduced its head count by 6,000 people to 16,500 and invested heavily in new production and more aggressive advertising. Sales last year are thought to have increased sharply to \$2bn while in December its main beer, Carveja Antarctica, recovered the number one spot ceded to Brahma.

While the two market leaders have been restructuring, new brands have taken a growing slice of beer sales. Kaiser, in which Heineken owns 15 per cent, increased its market share from almost zero to about 14 per cent. Skol, brewed under licence by Brahma, has taken a similar share.

But the sector which has so far grown least is premium beers, which account for only about 1.5 per cent of sales. Antarctica and Anheuser are betting that Budweiser, which will be launched at the premium end of the market, will persuade enough Brazilians to trade up to a more expensive and - in Brazil - more glitzy brand.

With each 1 per cent of market share worth \$50m in annual sales, analysts say the bet looks attractive.

Anheuser's arrival in Brazil gives it the edge over other global brewers, several of which have already started eyeing the market. Miller of the US and Kirin of Japan are thought to be interested in entering, but both would probably prefer to do so with a local partner, as Anheuser chose. Quilmes, the Argentine brewer, is also thought to want to produce in Brazil.

But with Antarctica tied to Anheuser, and Brahma apparently unwilling to sell shares at this stage, none of the main brewers are left. From now on, new entrants may be forced to opt for the more costly, and more difficult, strategy of building brands and distribution from scratch.

# Further fall for Placer Dome

By Kenneth Gooding,  
Mining Correspondent

Placer Dome, the Vancouver-based international mining group, reported a second successive year of falling earnings and gold production in 1994.

Net earnings slipped to US\$105m or 44 cents a share, from \$170m or 45 cents in 1993, mainly because of the absence of favourable tax adjustments.

Fourth-quarter net earnings were \$26m or 11 cents compared with \$83m or 26 cents,

Placer's share of gold production was 1.7m troy ounces against 1.83m in 1993. The fall was caused primarily by a 7% month shut-down of the Gold Sunlight mine in the US, which cost 56,000 ounces, and lower grades at the Porgera mine in Papua New Guinea. It expects its share of production this year to be 1.8m ounces, still below the 1.85m of 1993.

Sales revenues last year were \$809m against \$917m. Placer's average realised price for gold was \$388 an ounce

against \$360 the previous year but production costs rose from \$184 to \$188 an ounce.

Cashflow from operations was \$225m against \$300m. Placer continued to maintain a strong financial position in spite of capital expenditures totalling \$434m. The year-end cash and short-term investments balance was \$312m and debt amounted to \$276m.

Its share of proven and probable reserves at year-end was estimated at 19.8m ounces of gold against 19m a year earlier.

# Cascades returns to profitability

By Robert Gibbins in Montreal

Cascades Paperboard, the international packaging group controlled by Canada's Cascades, is returning to profitability, with streamlining of its European operations, asset sales and stronger margins.

Fourth-quarter net profit was \$4.5m (US\$3.2m), or 9 cents a share, against a net loss of \$39m or \$2.14 share a year earlier. Sales were \$421m against \$319m.

For the full year, net profit was \$318,000, equal after preferred dividends to a loss of 9 cents per common share, against a loss of \$819m or \$2.85 a share in 1993. Sales were \$3,725m against \$3,872m. The lower sales figure was due to asset sales.

During the year the company shut down its Duffel mill in Belgium.

Mr Laurent Lematre, chairman, said results will continue to improve in 1995, with higher

prices and greater productivity. The mills are fully booked in Europe and North America.

At the operating level, the fourth quarter showed income of \$14.7m, up 133 per cent over the third quarter.

The company has made a provision of \$313.9m in respect of a \$328m fine imposed by the European Commission in 1994. However, Cascades said it is contesting the decision and believes the amount will be substantially reduced.

## Correction

Midland Walwyn  
In a report headed "Canadian stockbroker chief quits" on February 21, it was stated that Midland Walwyn Capital lost money in the fourth quarter of 1994. Midland Walwyn in fact reported earnings of \$420,000 for the quarter.

# Akzo Nobel climbs 35% in first year

By Ronald van de Krol  
in Arnhem

Akzo Nobel, the Dutch-based chemicals group, marked its first year of existence with a 35 per cent rise in net profit before extraordinary items.

The company, formed by Akzo's acquisition of Nobel of Sweden, said net profit before extraordinary items rose to \$1.25bn (\$758m) in 1994 from a pro forma \$1.84bn in 1993. The annual dividend will be

raised to \$1.700 a share from \$1.650.

Mr Cees van Lede, chairman, said the rise was due both to external factors, such as European economic recovery, and internal integration, and cost-cutting following the takeover of Nobel.

If not extraordinary charges in both 1993 and 1994 are included, last year's net profit increased by 49 per cent to \$1.18bn from \$790m.

Sales advanced by 6 per cent to \$12.22bn, reflecting a 5 per

cent expansion of selling volumes as demand strengthened because of the economic revival.

"For 1995, we are cautiously optimistic and we expect a further increase in sales and earnings," Mr van Lede said.

The profit increase came virtually across the board, with even the fibre sector swinging back into an operating profit of \$180m from a loss of \$121m a year earlier.

In percentage terms, the best performer was the chemicals

sector with an operating profit rise of 49 per cent to \$1.72bn.

Mr van Lede said that Akzo Nobel had been "blessed" with severe winter weather in the US, which had boosted demand for road salt.

Other strong chemical sectors included PVC and pulp and paper chemicals.

In coatings, operating profit rose by more than 30 per cent to \$1.521m, though margins came under pressure towards the end of the year because of rises in raw material prices.

## FIDELITY AMERICAN ASSETS N.V.

(in liquidation)  
Registered office: 36 Kaya WFG (Jombi) Mensing  
Curacao, Netherlands Antilles

## NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

Please take notice that the Annual General Meeting of Shareholders of Fidelity American Assets N.V., the "Corporation" will take place at 3.00 PM at 36 Kaya WFG (Jombi) Mensing, Curacao, Netherlands Antilles, on March 21, 1995.

The following matters are on the agenda for this Meeting:

1. Approval of the balance sheet and profit and loss statement for the fiscal year ended November 30, 1994.
2. Consideration of such other business as may properly come before the Meeting.

Approval of each item of the Agenda will require the affirmative vote of a majority of the votes cast at the Meeting.

Holders of registered shares may vote by proxy by mailing a form of registered shareholders proxy which will be sent to them by the Fund's Registrar and Transfer Agent, Fidelity Investments Luxembourg S.A., registered shareholders may also obtain a form of registered shareholder proxy from the institutions listed below.

Holders of bearer shares may vote by proxy by mailing a form of proxy and certificate of deposit for their shares to the Corporation at the following address:

Fidelity American Assets N.V.  
c/o AMACO Holdings & Trust Company N.V.  
Post Office Box 3141  
Curacao  
Netherlands Antilles

Bearer shareholders may obtain a form of bearer shareholder proxy and certificate of deposit from the following institutions:

Fidelity Investments Luxembourg S.A.  
Kansallis House  
Place de l'Etoile  
B.P. 2174  
L-1021 LUXEMBOURG

Fidelity Investments International  
Oakhill House  
130 Tonbridge Road  
Hildenborough  
Kent TN11 9DZ  
England

Fidelity International Limited  
PO Box HM 670  
Hamilton HM CX Bermuda

Alternatively, holders of bearer shares wishing to exercise their rights personally at the Meeting may deposit their shares, or a certificate of deposit therefore, with the Corporation at 36 Kaya WFG (Jombi) Mensing, Curacao, Netherlands Antilles, against receipt therefore, which receipt will entitle said bearer shareholder to exercise such rights.

All proxies and certificates of deposit (issued to bearer shareholders) must be received by the Corporation not later than 1.00 PM on March 21, 1995, in order to be voted at the Meeting.

Dated: February 17, 1995

By Order of the Board of Liquidators



Notice to electors, depositors for the purpose of the election of directors, shareholders of Fidelity American Assets N.V.

1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	11th	12th	13th	14th	15th	16th	17th	18th	19th	20th	21st	22nd	23rd	24th	25th	26th	27th	28th	29th	30th	31st	32nd	33rd	34th	35th	36th	37th	38th	39th	40th	41st	42nd	43rd	44th	45th	46th	47th	48th	49th	50th	51st	52nd	53rd	54th	55th	56th	57th	58th	59th	60th	61st	62nd	63rd	64th	65th	66th	67th	68th	69th	70th	71st	72nd	73rd	74th	75th	76th	77th	78th	79th	80th	81st	82nd	83rd	84th	85th	86th	87th	88th	89th	90th	91st	92nd	93rd	94th	95th	96th	97th	98th	99th	100th
12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100											

**NOTICE OF REDEMPTION**  
To the Holders of

**Owens-Corning Fiberglas Corporation**

2% Convertible Junior Subordinated Debentures due 2005

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of the indenture dated as of March 13, 1993 (the "Indenture") between Owens-Corning Fiberglas Corporation (the "Company") and The Chase Manhattan Bank, N.A., as Trustee, the Company has elected to redeem all of its outstanding 2% Convertible Junior Subordinated Debentures due 2005 (the "Debentures") on March 13, 1995 (the "Redemption Date") at a redemption price equal to 105.00% of the principal amount thereof (the "Redemption Price") plus interest accrued thereon to the Redemption Date.

The Bearer Securities will become due and payable at the Redemption Price on the Redemption Date, and upon presentation and surrender of the Bearer Securities (together with all unexpired coupons) to a Paying and Conversion Agent (as hereinafter defined), the Redemption Price will be paid. Accrued interest will be paid to the Redemption Date. Interest on such Bearer Securities will accrue on and after the Redemption Date.

As an indication to redeemers, holders of Bearer Securities have the right to convert Bearer Securities into fully paid and non-assessable shares of Common Stock of the Company at a conversion rate of one share of Common Stock for each \$20.00 principal amount of Bearer Securities. No fractional shares or securities representing fractional shares will be issued upon conversion, but if a conversion results in a fraction of a share, the holder will be paid a cash amount equal to the entire fraction of the value per share of the Common Stock at the time of the conversion. The business day next preceding the date on which the Bearer Securities or Bearer Securities and completed Conversion Notice (together with all unexpired coupons) are received by the Paying and Conversion Agent (as hereinafter defined), Conversion shall be deemed to have been effected immediately prior to the close of business on the date on which the Bearer Securities and completed Conversion Notice are received by the Paying and Conversion Agent. Holders desiring to convert Bearer Securities must timely file requirements and instructions with the service of the Bearer Securities.

THE RIGHT TO CONVERT Bearer SECURITIES WILL TERMINATE AT THE CLOSE OF BUSINESS ON MARCH 13, 1995.

The closing price of the Company's Common Stock on February 8, 1995 as reported on the New York Stock Exchange composite tape was \$24.00.

ADDITIONAL INTEREST WILL NOT BE PAID ON ANY Bearer SECURITY WHICH HAS BEEN SUBMITTED FOR CONVERSION.

CONVERSION OF Bearer SECURITIES SHALL BE DEEMED EFFECTIVE ON THE DATE THAT THEY ARE PRESENTED IN FULLY TRANSFERABLE FORM WITH A COMPLETED CONVERSION NOTICE AND NOTIFICATION OF THE PAYING AND CONVERSION AGENTS.

The Company may be required by Section 1445 of the United States Internal Revenue Code of 1954, as amended, to withhold tax on interest and premium, if any, payable to each holder upon the redemption of this Security. If such tax is withheld, the holder's net proceeds from the redemption of this Security shall be reduced by the amount of such tax. The holder's net proceeds from the redemption of this Security shall be reduced by the amount of such tax. The holder's net proceeds from the redemption of this Security shall be reduced by the amount of such tax.

Liened below are the offices of the respective Paying and Conversion Agents:

The Chase Manhattan Bank, N.A.  
International Trust Window - Floor 18  
1 Chase Manhattan Plaza  
New York, NY 10001

The Chase Manhattan Bank, N.A.  
London Branch  
Windsor House, 150 Old Broad Street  
London EC2M 6TA, England

Bankinghaus Lambert S.A.  
24 Avenue Maréchal  
B-1050 Brussels  
Belgium

Chase Manhattan Bank Luxembourg S.A.  
8 rue Pictet  
L-2008, Luxembourg  
Grand Duché de Luxembourg

Chase Manhattan Bank (Switzerland) Ltd.  
83 Rue du Rhône  
CH-1201 Geneva  
Switzerland

OWENS-CORNING FIBERGLAS CORPORATION  
By: THE CHASE MANHATTAN BANK, N.A.  
as Trustee

Dated: February 10, 1995

**National Westminster Bank**  
(Incorporated in England with limited liability)  
US\$ 500,000,000 Primary Capital FRNs (Series "C")

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the Interest Period from February 28, 1995 to May 31, 1995 the Notes will carry an Interest Rate of 6 3/8% per annum.

The interest payable on the relevant Interest Payment Date, May 31, 1995 against coupon No. 38 will be US\$ 162.52 per US\$ 100,000 principal amount of Note and US\$ 1,625.17 per US\$ 100,000 principal amount of Note.

The Agent Bank  
Kreditbank S.A. Luxembourg/Genève

**NATIONAL BANK OF CANADA**  
US\$ 150,000,000  
Floating Rate Subordinated Debentures due 2007

In accordance with the provisions of the Debentures, notice is hereby given that for the six month interest period from February 28, 1995 to August 31, 1995 the Debentures will carry an Interest Rate of 3.28125% per annum, adjusted in accordance with a notice published in September 1995.

The interest payable on the relevant Interest Payment Date, August 31, 1995 will amount to US\$ 167.71 for Debentures of US\$ 10,000 for nominal and US\$ 1,677.10 for Debentures of US\$ 100,000 nominal.

The Reference Agent  
Kreditbank Luxembourg

**Pesetas 20,000,000,000**  
**KINGDOM OF SWEDEN**  
**Yield Curve Notes due 2000**  
**Issued 25th August 1993**

Interest Rate	8.848% per annum (18% - 6 month Pta Libor)
Interest Period	27th February 1995 to 25th August 1995
Interest Amount per Ptas 100,000 Notes due 25th August 1995	Ptas 4,424.00

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Madrid  
Agent

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Birmingham City Council  
Economic Development Department

Notice to the Bondholders

**TECO Electric & Machinery Co. Ltd**  
(Incorporated with limited liability in the Republic of China)  
US\$ 100M 2.75% Bonds due 2004

TECO Electric & Machinery Co. Ltd (the "Issuer") hereby notifies you that, following the publication by the Securities and Exchange Commission of the SEC (the "SEC") on 28th December, 1994 of regulations concerning the conversion of off-shore bonds into Global Depository Receipts ("GDRs"), the Issuer is proposing to apply to the SEC for approval to implement procedures for conversion by holders of the Bonds into GDRs evidencing shares of the Issuer.

February 28, 1995, London  
By: Citibank, N.A. (Issuer Services), Agent Bank **CITIBANK**

**SECURITIES AND FUTURES LIMITED**  
Veritas House, 125 Finsbury Pavement, London EC2A 1PA  
Tel: (44) 171 417 9721 Fax: (44) 171 417 9705

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**NORWEB**

Notice of Reduced Interest Payment Date

**Republic of Ecuador**  
PDI Bonds due 2015

Pursuant to the terms of the PDI Bonds, the Republic of Ecuador has elected to capitalize a portion of the interest payable for the Interest Period from February 28, 1995 to August 28, 1995. Therefore, August 28, 1995 will be a Reduced Interest Payment Date.

By: The Chase Manhattan Bank, N.A.  
as Fiscal Agent

February 28, 1995

**The Bangkok Bank of Commerce Public Company Limited**

**US\$170,000,000**  
Floating Rate Notes Due August 1999

In accordance with the provisions of the Floating Rate Notes, notice is hereby given as follows:

Interest Period : 27.02.95 - 25.08.95

Rate of Interest : 6.875% per annum

Coupon Amount : US\$17,000.01 per Note of US\$500,000.00 each

Fiscal Agent and Agent Bank  
**London Forfeiting Asia Limited**

**U.S. \$300,000,000**

**The Tokai Bank, Limited**  
Subordinated Floating Rate Notes Due 2000

Interest Rate	6.53438%
Interest Period	28th February 1995 to 21st May 1995
Interest Amount due 21st May 1995	US\$ 1,880.00
US\$ 100,000 Note	US\$ 1,880.00
US\$ 300,000 Note	US\$ 5,640.00

CS First Bank Agent

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## INTERNATIONAL COMPANIES AND FINANCE

## JCI aims at blacks in break-up

By Mark Suzman  
in Johannesburg

Johannesburg Consolidated Investments, the South African mining house controlled by Anglo-American Corporation, has formally announced its intention to break the group up into three companies, two of which will be put on the market specifically to attract black investors.

If successful, the move will lead to the establishment of by far the biggest black-controlled companies in the country.

Mr Pat Retief, JCI chairman, said yesterday that one company would house the group's large platinum assets together with some smaller unlisted diamond investments, a second would contain its broader industrial interests and a third JCI's remaining mining assets.

Subject to shareholders' approval the new companies will be listed on the Johannesburg Stock Exchange on May 15.

The announcement comes nearly a year after Anglo-American, which effectively controls around 48 per cent of JCI's shareholding, first proposed the restructuring to try to create opportunities for increasing black involvement in the economy.

However, Mr Retief said the long delay was inevitable because special enabling legislation had to be passed in par-



Pat Retief in 'exploratory negotiations' with several black groups

liament to allow shares in the underlying companies to be distributed without substantial tax costs.

As previously indicated, Anglo-American will retain direct control over the platinum and diamond interests, which includes Rustenburg Platinum, the world's largest platinum producer.

The resulting company, which will have assets valued at about R6.3bn (\$1.74bn), will be renamed the Anglo-American Platinum Company (Amplats).

JCI's gold, coal, ferrochrome and base metals assets, as well as a 10 per cent stake in both Amplats and UK-based Johnson Matthey, will be grouped together into JCI Limited, a focused mining house which will have a tentative asset value of R6.4bn.

Meanwhile, the group's industrial shareholdings, which include interests in media, food, beverages, property and the motor industry and together are valued at R6.6bn, will be grouped into

the Johnnies Industrial Corporation Limited.

Anglo-American will then sell off its controlling shareholdings in the latter two companies to black investors, giving South African blacks significant stakes in both mining and industry for the first time.

In a special announcement the company called for proposals along these lines from "all interested parties" but said they "must illustrate that they represent a broad spectrum of black interests and those who play the leadership role should be fully supported by such a spectrum of interests".

Mr Retief said "exploratory negotiations" had begun with several black groups, but that given the complexity of the transactions he did not expect any final decisions to be made in the near future.

In its final results as a single company, JCI has reported a sharp rise in attributable earnings to R344.6m for the six months to the end of December, up from R163.8m a year ago.

The bottom line was boosted by the inclusion of R146.8m in abnormal profits, most of which resulted from the group's sale of Beyer's shares to fund the purchase of additional shares in Omni Media. However, even without this, profit improved to R221.8m from R179.6m previously.

## Goodman Fielder in link with Bunge

By Bruce Jacques in Sydney

Goodman Fielder, the Australian food group, is merging its Australian milling, baking and wheat starch businesses with those of Bunge, the South American food company.

Goodman said yesterday the merger would create a company with annual sales of around A\$800m (US\$689.5m), with Goodman holding 67 per cent and Bunge 33 per cent.

Mr Barry Weir, Goodman managing director, said the merged entity would rank as one of the world's largest milling and baking companies. The deal, which requires approval from Australia's Trade Practices Commission, follows the collapse of an earlier proposal for an asset sale which would have involved Bunge taking an equity interest in Goodman.

The merger continues the reorganisation of Goodman. Earlier this month, it sold its Asian operations for about A\$177m.

Yesterday's announcement said the proposed merger would enhance the efficiency of the businesses through better capacity use.

"The milling and baking industries are in very competitive retail markets," Mr Weir said. He added that the proposal would help the combined companies be more efficient by lowering costs through economies of scale.

Meanwhile, Mr Allan Fels, Trade Practices Commission chairman, indicated the two companies had been discussing the merger with the Commission before yesterday's announcement.

He said the deal would take priority over investigation of an earlier proposal for Goodman to rationalise its baking operations with Defiance Mills, an Australian industry rival.

Tubemakers, the Australian steel products group, has raised its interim dividend from 6 cents to 7.5 cents a share after lifting net profit 26 per cent to A\$36.7m from A\$29.1m in the December half. Sales rose 10 per cent to A\$820m.

## NEWS DIGEST

## Formosa Plastics posts sharp growth

The Formosa Plastics group, Taiwan's largest private-sector conglomerate, saw sharp growth in 1994 due to recovery in the petrochemical industry and improvement in the performance of its US arm, writes Laura Tyson in Taipei.

Preliminary pre-tax profits climbed to about T\$226m (US\$1.06bn) last year from T\$17.7bn in 1993, the company said, on revenues which jumped to T\$239.5bn from T\$178.1bn. Forecasts for 1995 were not available.

Formosa Plastics is a leading producer of synthetic fibres and petrochemical products. The group's Taiwan-listed companies include Nan Ya Plastics, Formosa Plastics Corp, Formosa Textile and Formosa Chemical and Fibre. Formosa Plastics Corp is the world's biggest producer of PVC resin.

Prices of polyvinyl chloride resin and other materials rose steadily last year while prices for nylon filament and acrylic staple have also been rising, fuelled by a shortage of cotton.

The group's sixth naphtha cracker complex, projected to cost roughly US\$2bn, is due to start production in 1998.

Star TV targets new service at SE Asia

Rupert Murdoch's Star TV announced it is to launch a new 24-hour satellite channel broadcasting to south-east Asia, Reuters reports from Hong Kong.

The channel, which will start on March 4, will use Indonesia's Palapa B2P satellite instead of Asia Satellite Telecommunications' Asiasat 1.

During the day, it will offer a combination of Prime Sports and Channel V music, unscrambled, geared to both English and Chinese-speaking audiences. In the evenings, the channel will carry movies that have been encrypted.

"Asiasat 1 cannot deliver existing programmes to all of Indonesia and the Philippines," said Mr Gary Davey, Star TV chief executive. Star TV is a unit of News Corp.

"Yet the demand for Star's services is now so strong in these countries that we have decided to make available the best of our international programming from the Palapa satellite."

Scott Paper to sell energy plant

Scott Paper has signed a letter of intent to sell its Chester, Pa., co-generation facility to CRSS, AP-DJ reports from Philadelphia.

The sale price is expected to be \$170m, subject to certain adjustments. The transaction is subject to certain regulatory approvals and final documentation, Scott Paper said. The sale is expected to close in the second quarter.

The plant includes a 650,000-pounds-per-hour circulating fluidised bed boiler, a turbine generator capable of producing 59 megawatts of electricity, and associated auxiliary equipment.

Under terms of the letter of intent, Scott Paper will purchase from CRSS energy, steam and certain other services.

The sale is the latest step in the company's programme to shed non-strategic assets, Scott Paper said. Within the past three months the company has raised more than \$20m by selling its S. D. Warren printing and publishing papers subsidiary, its Mobile, Alabama, energy complex, and certain other assets in health care and food service.

## Slocan profits ahead at C\$07.7m

Slocan, an integrated British Columbia forest products group, reported 1994 net profit of C\$7.7m (US\$7.04m), or C\$1.56 a share, up C\$0.5m, or C\$1.95, in 1993, including recovery of US timber duties and other special gains in both periods, writes Robert Gibbons in Montreal. Revenues were C\$728m, against C\$668m. Earlier this month, Canfor's C\$650m bid for Slocan failed.

Forex, a Quebec particleboard and timber producer, more than doubled 1994 sales to C\$210m and net profit was C\$33m, or C\$4.37 a share, up from C\$14.1m, or C\$1.86, in 1993. The company exports most of its production to the US.

## Ems-Chemie slips 28.5% at net level

Ems-Chemie, the Swiss specialty chemicals and plastics group, has reported a 28.5 per cent slide in 1994 consolidated net income following a sharp fall in its financial earnings, writes Ian Rodger in Zurich.

Sales advanced only 3.1 per cent to Sfr867m (S\$83.68m) as the export-orientated group was hurt by the strong Swiss franc and the increase in petrochemical raw material prices.

Operating profits rose 8.4 per cent to Sfr132m, but pre-tax profits fell 27.8 per cent after a 82.8 per cent slide in net financial earnings, attributed to weak stock markets.

## Income at Tri Polyta rises 231%

Tri Polyta, Indonesia's main polypropylene manufacturer which has American depository receipts listed on the US Nasdaq exchange, said its net income for 1994 rose 231 per cent, writes Manuella Saragosa in Jakarta. The advance came in spite of sharp price increases in its main raw material in the final quarter of the year.

Net income rose to Rp70.8bn (\$22m) from Rp21.4bn a year earlier on revenues of Rp481.1bn. Net income in the fourth quarter fell 24 per cent on the comparable quarter in 1993 to Rp13.6bn largely because prices of propylene feed stocks, the raw material from which polypropylene is produced, increased sharply during the period.

"We remain concerned at the long term prospect for propylene supplies which may result in historically higher prices for feed stock," said Mr Henry Fribaldi, Tri Polyta president and chief executive officer.

The company said construction of its third production train was on schedule.

## APN up 31% at A\$21.3m

Anstralian Provincial Newspapers (APN), the Australian media group controlled by Mr Tony O'Reilly, the Irish newspaper operator, has announced a 31 per cent rise in net earnings to A\$21.3m (US\$15.7m) for 1994 from A\$16.3m the previous year, writes Bruce Jacques.

APN, which operates newspapers in regional centres and capital city radio stations, lifted revenues by 26 per cent to A\$191.6m.

Annual dividend is 7 cents a share against 5.7 cents.

Mr Lian Healy, chairman, said yesterday the results were strong, particularly considering drought in many of the company's markets which affected advertising revenue.

The result followed tax provision of A\$10.3m, against A\$9m last time, and interest expense of A\$6.1m against A\$6.9m.

## Boral shakes up US operations

By Bruce Jacques

Boral, the Australian building products group, has announced a reorganisation of its US operations involving a sale to Beazer West, an offshoot of the UK-based Hanson group.

The company said yesterday it would sell Boral Resources, a California-based asphalt producer, to Beazer for an undisclosed sum. The company will

also sell a disused brick plant in Virginia to Old Virginia Brick Company.

Boral has agreed to buy, also for an undisclosed sum, a 35 per cent interest in Resource Holdings, whose main subsidiary Monex Resources, distributes fly ash in southern and central US.

It said yesterday the Resource Holdings purchase, when combined with its exist-

ing Western Ash operation, would make the company "the industry leader in fly ash marketing and distribution in the US".

They said the transactions were consistent with Boral's stated strategy of concentrating on its core building materials operations in the US, including brick, clay, concrete roof tiles and gypsum wall-board.

## North sees recovery after tumble

By Nikki Tait in Sydney

North, the Australian mining and forest products group which recently cut its name from North Broken Hill Peko, reported a sharp profits fall in the six months to end-December, although it saw a better outcome in the second half.

Operating profit before abnormal and tax was down by 3.2 per cent to A\$36.6m (US\$71.22m) in the period. Net operating profit after tax was 40 per cent lower, at A\$61.8m.

The downturn came despite the A\$4m net interest earned by the group, compared with a A\$26.4m charge a year ago.

North said that lower prices for iron ore, uranium, and pine products, plus higher exploration expenditures caused the damage. It said earnings in the second half should be "marginally better" in the second half, although full-year net profit, pre-abnormal, would still be below last time's A\$120m.



## INVESTOR AB 1994

- Investor's net worth on December 31, 1994 was SEK 43.5 billion, an increase of 16% from the previous year.
- Saab-Scania's income after financial items rose from SEK -48 million to SEK 3,463 million.
- The board of directors of Saab-Scania decided on February 22 that the Saab-Scania Group will be divided into two independent companies, Saab AB and Scania AB.
- The Annual Meeting will be held on Tuesday May 16, 1995, at 6 p.m. in Stockholm.

Investor's year-end report for 1994 can be ordered by telephoning +46-8-749 19 90 or by faxing +46-8-749 11 05.

## INVESTOR AB

Investor AB, S-103 32 Stockholm, Sweden

The Republic of Panama  
U.S. \$70,000,000

Floating Rate Serial Notes due 1990

For the period  
28th February, 1995 to 31st August, 1995

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest has been fixed at 7.4375 per cent, per annum, and that the interest accrued on the outstanding unpaid principal to 31st August, 1995 will be U.S. \$114.04.

The Industrial Bank of Japan, Limited  
Agent Bank

## U.S. \$400,000,000

Banque Paribas

Du Commerce Exterieur

Guaranteed Floating Rate

Notes due 1997

For the three months February 28, 1995 to May 31, 1995, the Notes will bear interest at 6.5% per annum. U.S. \$16.11 will be payable on May 31, 1995, per \$10,000 principal amount of Notes.

By: The Chase Manhattan Bank, N.A.,  
London, Agent Bank

February 28, 1995

## U.S. \$600,000,000

Lloyds Bank Plc

(Incorporated in England  
with limited liability)

Primary Capital Undated

Floating Rate Notes (Series 3)

For the six months, February 28, 1995 to August 31, 1995, the Notes will carry an interest rate of 6.5375% p.a. with a Coupon Amount of U.S. \$294.14 payable on August 31, 1995.

By: The Chase Manhattan Bank, N.A.,  
London, Agent Bank

## U.S. \$125,000,000

BANK OF BOSTON

CORPORATION

Floating Rate

Subordinated Notes Due 1998

Issued 26th August 1995

Interest Rate 6.3% per annum

Interest Period 28th February 1995

31st May 1995

Interest Amount per U.S. \$50,000 Note due 31st May 1995 U.S. \$305.00

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due 1996

In accordance with the provisions of the notes, notice is hereby given that for the interest period from 28 February 1995 to 31 August 1995 the rate of interest on the notes will be 6.1875% per annum. The interest payable on the relevant interest payment date, August 31, 1995, will be US\$316.25 per US\$10,000 note and US\$7,962.50 per US\$250,000 note.

By: The Chase Manhattan Bank, N.A.,  
London, Agent Bank

February 28, 1995

Agent: Morgan Guaranty Trust Company

JP Morgan

Bank of Tokyo (Curaçao) Holding N.V.  
U.S. \$100,000,000

GUARANTEED FLOATING RATE NOTES DUE 1997



Payment of the principal of, and interest on, the Notes is unconditionally and irrevocably guaranteed by

## The Bank of Tokyo, Ltd.

(Incorporated in Japan)

In accordance with the provisions of the Agent Bank Agreement between Bank of Tokyo (Curaçao) Holding N.V., The Bank of Tokyo Ltd., and Citibank, N.A., dated November 27, 1993, notice is hereby given that the Rate of Interest has been fixed at 6.45% p.a. and that the interest payable on the relevant Interest Payment Date, May 31, 1995, against Coupon No. 38 will be US\$164.83.

February 28, 1995, London

By: Citibank, N.A. (Incorporated in USA), Agent Bank.

CITIBANK

## US\$900,000,000

Floating Rate Subordinated Loan

Participation Certificates due 2000

Issued by Salomon Brothers Aktiefondsservice

for the purpose of financing a subordinated loan

The Mitsubishi Bank, Limited

Notice is hereby given that for the three months interest period from 28th February 1995 to 31st May 1995 the Certificates will carry a Coupon Rate of 6.484375% per annum.

Coupons payable on 31st May 1995 will amount to:

US\$1,657.12 per US\$100,000.00 Certificate and

US\$16,571.20 per US\$1,000,000.00 Certificate, respectively

Mitsubishi Bank (Europe) S.A.

As Agent Bank

U.S. \$200,000,000

Bergen Bank AS

Perpetual Floating Rate Notes

(with the right to subordinated)

In accordance with the provisions of the Notes, notice is hereby given that for the six months interest period from February 28, 1995 to August 31, 1995, the Notes will carry an interest rate of 6.5500%.

The interest payable on the relevant interest payment date, August 31, 1995, will be U.S. \$255.42 per U.S. \$50,000 principal amount of Notes.

By: The Chase Manhattan Bank, N.A.,  
London, Agent Bank

February 28, 1995

U.S. \$500,000,000

Lloyds Bank Plc

(Incorporated in England  
with limited liability)

Primary Capital Undated

Floating Rate Notes (Series 2)

For the three months, February 28, 1995 to May 31, 1995, the Notes will carry an interest rate of 6.4375% p.a. with a Coupon Amount of U.S. \$164.81 payable on May 31, 1995.

By: The Chase Manhattan Bank, N.A.,  
London, Agent Bank

February 28, 1995

Agent: Morgan Guaranty Trust Company

JP Morgan

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Financial Intelligence

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Data sources: BANC 1993, BANC 1994, CBI 1994

FT Surveys

سكاي من الامم



COMPANY NEWS: UK

# Gehe gets timing right for UK move

David Blackwell considers the hostile bid for AAH after another problematical year

Gehe, already Europe's largest pharmaceutical wholesaler, has chosen its moment well to move into the UK market.

AAH has once again not had a good year. Its last profits warning, made earlier this month, was complicated by the announcement that 23m of customer cheques had been stolen - although most of the money was quickly recovered.

The biggest problem has been its environmental services side, which runs street sweeping, rubbish collection and grass mowing operations for local authorities. Mr Bill Revell, chief executive, blamed over-aggressive tendering on a small number of new local authority contracts. The management failed to take fully into account the impact of the May court ruling requiring companies taking over contracts from local authorities to take on the existing workforce on their existing pay and conditions.

AAH estimated that the division would incur a loss of £2m for the 12 months to March 31,

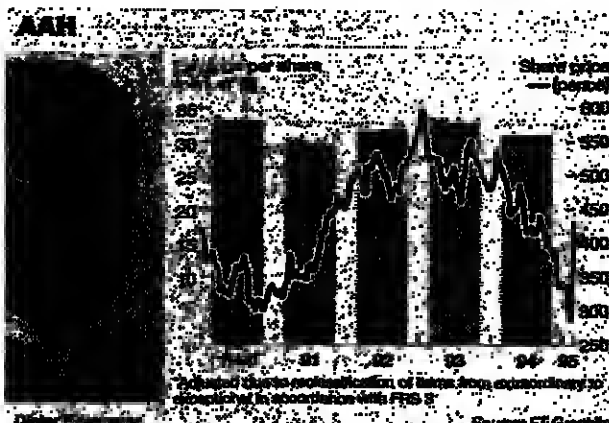
compared with £3.5m profits last year. Further, it warned that its distribution services business would report operating profits substantially below last year's £2.3m.

The latest warning followed a 14 per cent fall in interim profits to £16.4m, announced in December - then the group blamed its hire fleet of rubbish and street-sweeping trucks, which was chopped by two thirds to 110 vehicles.

AAH is always compared with UniChem, which has a similar chunk of the UK pharmaceutical wholesale market and a chain of about 300 chemists' shops. UniChem's market capitalisation is about £20m - well above the £37.4m offered by Gehe for AAH.

UniChem has stuck to its core business, while AAH has always been diverse. Its initials stand for Amalgamated Anti-acetic Holdings, a relic from when it was a joint venture with the National Coal Board.

Although it moved into pharmaceutical wholesaling in the mid-1970s, it was not until the late 1980s that that side of the



AAH's performance from 1991 to 1994. Source: FT Graphika

business really started to grow.

The group has over the past few years been considerably rationalised, most recently disposing of its building supplies division to Travis Perkins.

Mr John Padovan, AAH chairman, yesterday described Gehe's offer as "opportunistic, given the difficulties we have been running through". The board is planning to defend itself by arguing that the group

is being undervalued, and that the individual parts add up to more than the bid price. "We are confident of holding the bid off," he said, adding that the core healthcare division was functioning well.

AAH already has links with Gehe and its French operation, Office Commercial Pharmaceutique, which Gehe bought in 1993. The three have been involved in a joint venture on

purchasing known as Tredimed, which was set up to take advantage of the single European market but has never come to much.

Mr Dieter Kämmerer, chairman of Gehe's management board, said yesterday that regulations in the pharmaceuticals industry were widely different, making European purchasing very restrictive. However, he believed that change would come, and was shooting for 25 per cent of the European market from a base of between 130 to 180 warehouses.

City analysts also believe that market harmonisation will come, although probably not until the turn of the century. Meanwhile, if Gehe's bid succeeds, it will have established itself in another main European market.

The AAH management looks like having a tough struggle to win support in the City, although the offer is seen as finely priced. "Some shareholders will see it as a salvation," said one analyst. "But some could see further value."

## Seeking growth across borders as home market matures

By Katherine Campbell

Facing a largely mature market at home, Gehe has had to look abroad to maintain earnings growth. The AAH bid is the next logical step in consolidating its position as Europe's leading pharmaceutical distributor, the company said yesterday.

Its previously most important cross-border acquisition came in 1993 when, against a competitor from a US/French

consortium, Gehe paid DM750m for Office Commercial Pharmaceutique, France's largest medicine wholesaler.

Thanks in good measure to OCP, Gehe expects group sales of about DM15.3bn for 1994, compared with DM10.2bn in 1993.

The wholesale business remains by far the largest of Stuttgart-based Gehe's four divisions, accounting for roughly DM13.5bn of last year's sales. The fastest growing area, however, is

in home healthcare, built around Orkyn, France's dominant provider of equipment for post-hospitalisation equipment.

The rest of Gehe's activities are in industrial mail order, specialising in business-to-business office furniture and warehouse equipment; and drugs manufacturing.

The proposed AAH financing is similar to that employed in 1993, with a mixture of a rights issue and bank

debt. As with OCP, Gehe hopes the rights issue will be non-dilutive in the first year. While the company is just over 50 per cent controlled by Handel, a private company, its quoted shares have attracted a significant Anglo-Saxon following, making the company more sensitive to considerations such as dilution.

The bid does not mark the end of Gehe's European ambitions; it also has plans to expand in eastern Europe.

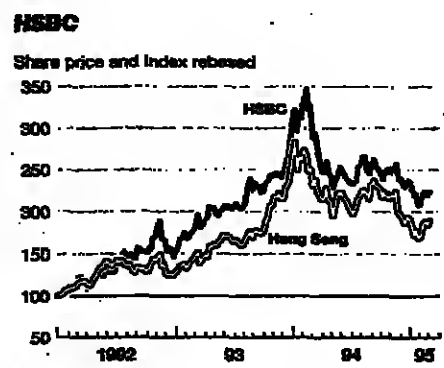
### LEX COMMENT

## HSBC seeks strategy

HSBC, with its big exposure to the fast-expanding economies of Asia, is supposed to be the UK banking sector's growth stock. But since the Midland acquisition, the group is yet to demonstrate it can expand organically. Pre-tax profits may have risen 23 per cent last year, but operating profits before provisions and disposals fell 15 per cent. HSBC's ability to depend on declining provisions for earnings growth has now probably run its course: that is particularly true given the low levels set aside for property in Hong Kong where the market is looking more than usually wobbly.

HSBC's strategy for growth looks less than convincing. True, it has successfully diversified geographically, reducing its dependence on Hong Kong. But the synergies between its ragtag of businesses are unproven. The management insists it can expand rapidly in Asia, while advancing in Organisation for Economic Co-operation and Development countries by winning market share and improving productivity. However, Midland's recovery in the UK is complete, and although the First Direct telephoning business may be winning customers, it is yet to prove particularly profitable.

As for Asia, competition is intensifying.



HSBC's share price and index rebased. Source: FT Graphika

HSBC's Hong Kong franchise is threatened by Bank of China group. Elsewhere, indigenous banks and international competitors are snapping at its heels. In the long term, the bank's best hope must be that it receives a licence to operate in China. In the meantime, HSBC must integrate its businesses more fully, replicating local successes elsewhere in its empire.

## Wembley refinancing still in doubt despite new chairman

By Tim Burt

Wembley, the debt-burdened stadium group, was yesterday warned that the appointment of a new chairman to replace Sir Brian Wolfson may not be enough to persuade investors to back a £120m (£190m) refinancing package.

Although Guinness Peat Group, one of Wembley's largest preference shareholders,

welcomed Sir Brian's decision to stand down, it indicated that it would support a rescue rights issue only if it was priced at a sizeable discount to yesterday's 54p closing price.

GPG, the UK investment vehicle of Sir Ron Brerley, the New Zealand financier, had earlier insisted on Sir Brian's demotion as the price for its support. "This is step in the right direction. But other

issues still have to be resolved," said Mr Blake Nixon of GPG. "The rights issue will have to be at a price below 4p."

Its caution was echoed by one of the rival bidders. Mr Stephen Julius of Stelli, can, the UK representatives of Apollo, said Sir Brian's move to deputy chairman was "not sufficient and if the right issue is priced at 4p it would be too rich".

## Albright offer 3.6 times subscribed

By Motoko Rich

The public offer of shares in Albright & Wilson, the chemicals company being spun off by Tenneco of the US, was 3.6 times subscribed.

Applications for a total of 216.5m ordinary shares were received for the 47m shares on offer under a clawback arrangement which put 15 per cent of shares up for sale to the public. The applications represent a value of £324.8m (£516m) at the offer price of 150p.

Tenneco, the industrial conglomerate, said the offer price set by Barclays de Zoete Wedd, the sponsor, was "lower-than-anticipated" because of reductions in chemical stock valuations and weakening conditions in the market for UK new issues.

Mr Robin Paul, Albright's

chief executive, said a "large majority" of the 125 institutions to which he marketed the shares have taken up the offer.

He said Albright would shortly be confirming its estimate for 1994 pre-tax profits of £40.7m, on a turnover of £642m.

Of the shares on offer, 1.5m have been allocated to qualifying employees and trustees of the profit sharing scheme and employee benefit trust.

Allocations to the public were as follows: 200-400 allocated in full; 500-600 - 400 shares; 700-800 - 450 shares; 1,000-2,000 - 50 per cent; 2,500-3,000 - 45 per cent; 4,000-8,000 - 40 per cent; 9,000-60,000 - 3,500 shares; 60,000 and above - 4,000 shares, subject to no allocation for applications for 150,000 and above.

## Fisons plans radical changes

Fisons, the pharmaceuticals, scientific equipment and distribution company, is likely to reveal its reorganisation plans next week, writes Daniel Green.

The company yesterday repeated its intention to announce the results of its management review - the brainchild of Mr Stuart Wallis, chief executive - "on or about" the date of publication of its 1994 results, expected to be about March 7.

Mr Wallis made it clear last month that nothing was excluded from the review, including large scale disposals or a break-up of the company.

Each of Fisons' three divisions has problems. The drugs division has highly regarded asthma drugs, but is rated only about 80th in the world by sales.

The shares have fallen from a peak of 513p in 1991 to 127p last night, the highest level this year.

## Trafalgar House order delay

By Andrew Baxter

A mystery problem on two US-built gas turbines is holding up commissioning of a £490m (£636m) power station built for Keadby Power, on South Humberside by John Brown Engineering, part of Trafalgar House.

The revelation is an embarrassment for John Brown and for General Electric, which is to take the turbines back to the US. It comes less than a week after Trafalgar House raised its hostile bid for Northern Electric and warned of an interim loss.

The delay raises the possibility of John Brown having to pay compensation to Keadby, although it is thought it could make its own claim on GE.

Last night, Trafalgar House described as "irresponsible and greatly exaggerated" a claim that penalties for the delay could run at £2.5m a week.

## Pentos suspended as rescue talks go on

By Patrick Harverson

Trading in the shares of Pentos was suspended yesterday, as the struggling retail group and its advisers attempted to put together a refinancing deal before a £55m (£87.5m) bank credit facility expires today.

The shares plunged from 8p to 4½p when trading was halted.

Although the group's lead bankers, Barclays and Midland, are willing to roll over the facility, the retailer needs an additional £20m to continue trading. The banks, however, are reluctant to extend Pentos any further credit, and the company is in danger of being placed in the hands of the

receivers if an alternative source of financing cannot be arranged by this afternoon's meeting of the Pentos board.

Three retailing companies were said to have talked to Pentos yesterday about acquiring part or all of the group. However, one company widely mentioned as a possible buyer, Barnes & Noble, the US book retailer, denied it had approached Pentos.

In its search for a rescuer, Pentos held talks yesterday with two venture capital groups, Schroder Ventures and Elektra Investment Trust. It is believed that the venture capitalists were considering some sort of management buy-out that would take Pentos private.

## The Reference in Spain's Capital Markets

### Financial Advice

AB Asesores acted as financial advisor in a rights issue for Pta. 7,733,320,000. October 1994.

AB Asesores acted as financial advisor in the L.P.O. of Godes Navarro, Construcciones, S.A. shares. November 1994.

Advisor in the privatization of Valencia's municipal towing service. November 1994.

AB Asesores acted as financial advisor to Unifin, S.A. in the recapitalization of its chemical division and the rights issue related to this process for Pta. 12,335,655,500. December 1994.

AB Asesores acted as financial advisor in a rights issue for Pta. 991,646,250 and the simultaneous placement of 3,200,000 shares. September 1994.

AB Asesores acted as advisor to RENFE for the awarding of its rights in the Chamartin urban development project. May 1994.

AB ASESORES

### Corporate Finance

AB Asesores acted as financial advisor in a rights issue totalling Pta. 14,241,524,800. December 1994.

AB Asesores acted as financial advisor in two convertible bond issues for a total of Pta. 11.5 billion. July 1994.

Financial advisor on obtaining a long term loan for Pta. 3,100 million. December 1994.

AB Venture Fund and KF Spain No. 1, together with other venture funds, have subscribed a rights issue in Equipamientos Urbanos, S.A. for a total amount of Pta. 340,000,000. December 1994.

AB Asesores managed the project finance of extension of the "Fira de Barcelona" site in Pedrosa, with a total investment of Pta. 5 bn. January 1994.

AB Capital Fund, AB Capital Fund II, AB Venture Fund and KF Spain No. 1, venture funds managed by AB Asesores, subscribed a rights issue for Pta. 1,000,000,000. December 1994.

AB Capital Fund and AB Capital Fund II, development capital funds managed by AB Asesores, subscribed a rights issue in Educa Solent, S.A. for Pta. 350,000,000. December 1994.

AB ASESORES

### Secondary Placings & Issues

AB Asesores acted as lead manager in the placing of 7,000,000 shares. September 1994.

AB Asesores managed and executed a private placement of convertible bonds for Pta. 5,000,000,000. July 1994.

Issue of Reverse Floating Warrants on LBO for a total of Pta. 12.5 bn. June 1994.

AB Asesores acted as joint-lead manager in the issue of mortgage backed bonds for Pta. 8,000,000,000. April 1994.

AB Asesores acted as financial advisor and lead manager in the offering of 8,500,000 shares. December 1994.

AB Asesores arranged and placed the Mortgage Securitization Fund "AG Finanzas I" for Pta. 3,063,000,000. January 1994.

In 1994 AB Asesores also acted as a manager in the bond issues of AB Svensk Exportkredit and Cepasa and in the secondary placings of FCC, ENDESA and AUMAR.

AB ASESORES

### Mergers & Acquisitions

AB Asesores acted as financial advisor to OCP Construcciones, S.A. in the sale of a majority shareholding in Parque de Atracciones Casa de Campo de Madrid, S.A. March 1994.

AB Asesores acted as financial advisor in the sale of Unión Española de Explosivos, S.A. February 1994.

AB Capital Fund, AB Capital Fund II, AB Venture Fund and KF Spain No. 1, venture capital funds managed by AB Asesores, acquired a shareholding in Funespaña, S.L. September 1994.

AB Asesores acted as financial advisor to the shareholders of Inversiones Finisterre on the sale of a minority holding in this company to Sociedad General de Aguas de Barcelona.

AB ASESORES

AB ASESORES



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## COMPANY NEWS: UK

Lower debt provisions offset fall in treasury dealing activities

# Midland rises 7% to £905m

By Alison Smith

A steep fall in dealing profits within treasury operations at Midland Bank, the UK high street banking arm of HSBC Holdings, depressed operating income and contributed to a sharp rise in the cost/income ratio, which reached 70.1 per cent.

Operating profit before provisions in 1994 slipped by one third to £925m, but the decline in provisions for bad and doubtful debts - from £870m in 1993 to £98m in 1994 - helped pre-tax profits to rise 7 per cent from £844m to £905m (£144bn).

Earnings per share were 73.1p, against 80.7p. The treasury operations at Midland Global Markets and International Banking produced dealing profits of just £33m compared with £355m in 1993. Proprietary position, taking in interest rate derivatives and securities, incurred a loss of £73m, of which £72m related to the first half.

Describing the cost/income ratio as "unacceptably high", Mr Keith Whitson, chief executive, said some processing functions would be taken out of the UK central units, and that he expected a small drop in the 45,900 full-time equivalent staff employed.

Within the total, more staff would be deployed in the growing areas of the business, such as First Direct, the telephone banking subsidiary.

Mr Whitson said he also expected to see growth in the securities custody business, card services, and insurance sales. By the end of 1997, Midland's aim is that everyone with a Midland current account should have at least two other Midland products, and everyone with a Midland mortgage should have at least four other products.

Midland set aside £37m last year for provisions against possible compensation claims in respect of poor personal pen-



Keith Whitson: cost/income ratio is unacceptably high

sions advice to customers to opt out of or not to join an occupational scheme. This brings the total provisions for pensions mis-selling to £45m, and comes alongside £5m for the cost of identifying potential victims as City regulators require.

Midland paid a dividend of £413m to HSBC from net profits of £595m. Retained profits of £182m (£243m), left the ratio of core capital to assets weighted by risk almost unchanged at 6.6 per cent.

## UK court decision limits Butte \$1bn suits

By Kenneth Gooding, Mining Correspondent

Five of the 77 defendants sued for more than \$1bn by Butte Mining, a London listed company, have been granted injunctions in the UK High Court restraining Butte and Mr David Lloyd-Jacob, its chairman, from taking further action against them in the US.

The five are Simon Engineering and three of its subsidiaries (including Robertson Research) and Ernst & Young, the accountancy firm.

Butte's US complaint was dismissed on January 31 by a US Federal District Court judge in Montana. Butte is appealing to the Federal Appeals Court.

Mr Richard Catt, Simon's secretary and legal adviser, said the effect of his com-

pany's injunction was to restrain Butte and Mr Lloyd-Jacob from appealing against the Montana judge's decision or beginning any new proceedings related to the subject matter of the Montana action in the US against Simon or its subsidiaries.

Meanwhile, said Mr Catt, the Robertson Group, was now free to restore an action it began against Butte in the UK High Court in July 1992.

### RESULTS

		Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividends corresponding dividend	Total for year	Total last year
Barrington	Yr to Dec 31	-	(1.2)	0.088	(0.21)	0.3	(1.3)	0.5	0.5
Capita	Yr to Dec 31	73.8	(27.2)	7.9	(5.46)	10.5	(7.9)	2.2	2.5
Community Hospitals	6 mths to Dec 31	28.5	2.22	2.55	6.8	6.8	3	10	7.8
CostaCares	Yr to Dec 31	38.4	(30.8)	6.03	(3.41)	2.6	(0.2)	0.53	0.79
Decca Motors	Yr to Dec 31	91.2	(84.4)	4.47	(1.33)	15.4	(8.8)	2.8	2.25
Essex Furniture S	6 mths to Dec 31	13.2	(7.47)	0.855	(0.703)	4.96	(4.06)	2.1	4.3
Go-Ahead	6 mths to Dec 31	48.7	(25.0)	3.18	(1.42)	6.24	(4.93)	1.5	-
Heritage S	6 mths to Dec 31	6.04	(6.58)	0.049	(0.115)	0.87	(2.14)	-	-
HSBC	Yr to Dec 31	-	(1)	3.168	(2.584)	79.6	(71.3)	18	23.5
Millgate S	Yr to Nov 30	5	(5.86)	0.54	(0.565)	1.9	(1.9)	-	0.5
Papagena	Yr to Dec 31	4.81	(7.5)	0.243	(0.554)	12.7	(76.1)	3	5
Investment Trusts		NAV (p)	Attributable earnings (£m)	EPS (p)	Current dividend (p)	Date of payment	Corresponding dividend	Total for year	Total last year
BC Shin Nippon	Yr to Jan 31	136.9	(158.3)	0.255	(0.133)	1.13	(0.83)	-	-
Edinburgh Income	6 mths to Jan 31	36.13	(50.7)	0.406	(0.323)	2.7	(3.5)	1	4
Barbours Scotland	6 mths to Jan 31	218.5	(237.12)	0.544	(0.544)	4.02	(4.76)	2.4	10
JF Watson	6 mths to Jan 31	100.3	(122.4)	1.14	(1.19)	3.75	(3.82)	1.72	2.2
Primadonna	6 mths to Dec 31	288.02	(314.83)	0.147	(0.083)	3.26	(1.96)	2	4.5

Dividends shown net. Figures in brackets are for corresponding period, 10m increased capital. SUEM stock. \*Comparisons proforma. \*\*After £2.25m exceptional profit on disposal of After 26.15m exceptional. †At April 30. ‡At July 31. \*Second quarterly; makes 4.3p to date. \*\*Second quarterly; makes 3.44p to date.

## Alders offers A\$33m for McLeod

By Motoko Rich

A wholly-owned subsidiary of Alders, the department store and international duty-free retailer, yesterday launched a A\$33m (\$24.3m) bid for MS McLeod, the listed Australian company which owns Down town Duty Free, the country's biggest duty-free retail business.

Shares in Alders fell 1 1/2p to 207 1/2p as the company said it would offer A\$1 a share, less than two weeks after a Swiss-Air subsidiary offered 90 cents a share in a A\$24.6m bid. Just over a month ago Lion City, a private holding company owned by the Singapore-based Jumbay family, announced plans to acquire a 45.7 per cent interest in the Australian group at 84 cents a share.

Alders is offering cash for both shares and 60 cent convertible notes, conditional upon 90 per cent acceptance for the shares and 87 per cent acceptance for the notes. About 46 per cent of the shares are owned by the trustees of the estate of MS McLeod and associated parties.

Alders, which derives 17.5 per cent of its duty-free sales from Australia, said it was seeking to expand its business in the region.

Mr Tony Collyer, finance director, said: "We perceive the Pacific region to have the strongest growth prospects in the next decade."

In 1991 the group attempted to secure more contracts in Australia but lost the bid for the duty-free concessions at Sydney and Perth international airports to McLeod, which also runs outlets in some city centres and suburban areas.

Alders currently controls 2.7 per cent of the issued share capital of McLeod.

Alders also yesterday announced it was moving into New Zealand with the acquisition of Regency Duty Free Stores and Made in New Zealand, two airport store chains, for a total of NZ\$28m (\$17.7m).

**BZW** was lead manager of the SEK 2.3 billion bought deal of 35.7 million Avesta-Shellfield shares purchased from NOC Aktiefond.

**Bell Cablemedia plc**  
BZW advised Bell Cablemedia on the acquisition of the 100% shareholding in the cable operator, Cablevision, from the Cablevision Group, Inc. and Jones Group, Inc.

**BURFORD HOLDINGS plc**  
BZW was financial adviser and broker to Burford Holdings in the 3 for 5 rights issue, which raised £103 million to finance the acquisition of properties from the Ladbroke Group, and also advised the company in its £94 million acquisition of The Trocadero.

**elf aquitaine**  
BZW was lead manager to the sale by Elf Aquitaine, in a bought deal, of its direct shareholding in Enterprise Oil for £187 million.

**IRI AST**  
BZW advised Istituto per la Ricostruzione Industriale SpA (IRI) on the privatisation of Aciad Special Termi SpA (AST) for a total consideration of Lira 1,128 billion (£450 million).

**London Transport**  
BZW was adviser to London Regional Transport on the £259 million sale of the ten London Bus operating companies.

**Matthew Clark plc**  
BZW advised Matthew Clark on the £100 million acquisition of The Gannet Group Europe Limited.

**REDROW GROUP plc**  
BZW advised Redrow Group on its £200 million flotation via a placing and offer for sale.

**RJB**  
BZW was financial adviser, broker and debt arranger to RJB Mining in its £815 million acquisition of English Coal.

**Stena Line**  
BZW was financial adviser and co-lead manager of the £100 million sale of the 100% shareholding in the shipping company, Stena Line, to the Stena Line Group, Ltd.

**TELE-DANMARK**  
BZW was lead manager of the £100 million sale of the 100% shareholding in the telecommunications company, Tele-Danmark, to the Tele-Danmark Group, Ltd.

**TESCO PLC**  
BZW advised Tescos on its successful £297 million acquisition of Wm Low & Company PLC.

INVESTMENT BANKING. FROM A TO



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## COMMODITIES AND AGRICULTURE

# 'Evidence points to big central bank gold sale'

By Kenneth Gooding,  
Mining Correspondent

Circumstantial evidence points to a recent big sale of gold by a central bank, according to Mr Andy Smith, analyst at the Union Bank of Switzerland.

He says in UBS's latest "Precious Metals Outlook" that "almost unprecedented excitement" has broken out in three important areas of the gold market.

● Gold lease rates (or the cost of borrowing gold) have doubled since the start of this year.

● There have been record speculative short positions in gold on the New York Commodity Exchange.

● There has been remarkable activity in gold options.

Mr Smith suggests a sale of gold by a central bank would account for all these things happening at the same time. He says market conditions are similar to those at the end of 1992, two months after which the Netherlands central bank announced it had completed a

sale of 400 tonnes (12.88m troy ounces) of gold.

When that sale by the Netherlands was revealed in March 1993 it shook market confidence and sent the price to a seven-year low of \$326.10 an ounce.

One-month gold lease rates reached 1.7 per cent earlier this year compared 0.9 per cent at the end of 1994. Last night, having slipped back a little, the rate was still at a relatively high 1.4 per cent while overnight lease rates were 2.5 per cent, showing there was still considerable nearby tightness in the market.

Mr Smith says the evidence fits a central bank sale because when an "official lender" becomes a "forward seller" lease rates are squeezed up. In order to disrupt the gold market, "price protection is arranged, with counterparties trying the market up in large options positions".

Mr Smith forecasts that the gold price will fall to \$380 an ounce in the second quarter of this year but bounce back to

\$380 by this time next year.

● The coin sector may be a net seller of gold in 1995, for the first time in a peacetime year since the gold standard was introduced at the end of the 17th century, according to the CRU International metals consultancy group.

It points out that Japan's Ministry of Finance has a stock of 50 tonnes of Hiroshita and Akihito gold coins, repurchased from investors, that it intends to melt down and sell off as bullion by the end of this month.

CRU says that, if the sales are discreetly executed, the bullion market could easily absorb this quantity of gold, "but such an event would scarcely be good news for the gold business".

Meanwhile, gold offtake for coin manufacture in countries outside the former communist bloc dropped in 1994 to between 60 and 65 tonnes, the lowest since the early 1970s. This compares with 240 tonnes annually in the mid-1970s and early 1980s.

## Nutmeg producers to meet

By Camilla James in Kingston

The world's two major nutmeg producers will resume talks in Jakarta next month on a new joint marketing agreement that they hope will stabilise and then increase world market prices.

The discussions between Aspin, the Indonesian producers' group, and the Grenada Co-operative Nutmeg Association, are seeking "an agreement based on our mutual interests, but which will not be a cartel," said Mr Cliff Robertson, chairman of the Grenada association.

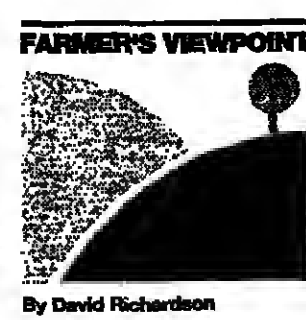
Indonesia and Grenada, which account for 75 per cent of the world's nutmeg production, have shared clear of recreating their cartel, which collapsed six years ago.

Prices have declined significantly since, and next month's discussions will aim at an agreement to keep production volumes at just slightly under world market demand.

# The down-side of cleaner air

Growers can no longer rely on free sulphur falling from the sky

It would be entirely true to suggest that farmers are hankering for the old days, when pea soup among enveloped London and the Home Counties each winter, when every house and factory chimney in the country spewed clouds of smoke into a darkened sky, when every gas works and electricity power station burned coal. But they are beginning to realise that those inconvenient, cough-making clouds had a sulphur lining.



By David Richardson

Let me explain. In order to develop and yield to optimum potential farm crops need the correct balance of a number of nutrients. Foremost among them are nitrogen, phosphorus and potassium. It is only in recent years however that it has become clear to most farmers that sulphur is equally important.

The reason for this belated but basic knowledge is that until only a few years ago sufficient supplies for most crops fell on to the land from the air. Farmers did not need to do anything to ensure adequate sulphur in the soil. It was already there as a result of atmospheric deposition following the burning of fossil fuels which, millions of years before, were formed from vegetated material containing sulphur.

But the Clean Air Act, which over a period of years, reduced drastically the amount of coal burned both domestically and industrially, brought this accidental bonus to an end. It also, of course, virtually eliminated unhealthy smog.

It has been estimated that between 1970 and 1982 emissions of sulphur into the atmosphere from all UK sources including transport and industry were cut from 4,425m tonnes a year to 3,425m tonnes. Recent legislation to bring about the continued reduction of SO<sub>2</sub> from power station flue gases will lead to further cuts in emissions over the next few years.

Asthma sufferers and environmentalists can take some comfort from those figures. But many farmers (who may also fall into the above categories) need to do something about it. For the lower overall deposition of sulphur are irregularly spread, according to proximity to power stations and the like, and crops and grass in some areas are increasingly becoming vulnerable to sulphur deficiencies in the soil. It will, therefore, be a continuing problem because, like nitrogen,

sulphur leaches from, or washes through, the soil after heavy rain and therefore must be regularly replenished.

Realisation of this, however, is only beginning to dawn on most farmers.

Meanwhile scientists at the government research station at Rothamsted in Hertfordshire have estimated that about 75 per cent of the UK's new receives under 20kg of atmospheric sulphur per hectare per year. That is less than half the amount needed to produce a full crop of oilseed rape, insufficient for either silage grass or cereals and barely enough for potatoes or sugar beet.

Yield reductions as a result of sulphur deficiency are already being experienced in some regions, especially in Scotland, East Anglia and the south west of England. In addition, it is known that the quality of some grains and grass can suffer if soil sulphur levels fall too low. One third of the UK's farmland is said to be at high or moderate risk.

Diagnosis of the problem can be by soil test or leaf tissue analysis, although in practice the results of the latter usually come too late for remedial action to be taken. It is far better, the experts say, to ensure that sufficient sulphur is applied to the soil so that crops can draw on it as they grow through the summer.

The solution can be relatively cheap. So-called "top dressings" of nitrogen fertiliser are routinely applied to cereals, oilseed rape and grass in the early spring. All the major fertiliser manufacturers have recently begun to offer variations on this containing sulphur in appropriate concentrations according to crop and soil type. The cost of sulphur applied in this way can be as little as £3 a hectare.

Yield responses can be dramatic. One Norfolk farmer who had trials done on his farm reported an increase in yield of over 70 per cent where sulphur was applied. He has concluded that he must now apply sulphur routinely in preparation for growing all vulnerable crops - and most are vulnerable.

Significantly, in an age when applying anything to the land that has a chemical sounding name is frowned upon by some, it is claimed, however, that sulphur can be environmentally friendly. Scientists have established that for optimum growth and nutrient use by plants the balance between nitrogen and sulphur in the soil should be about 15:1. When this is achieved plants absorb and use the nitrogen to maximum efficiency, thereby reducing the leaching of nitrates which can cause pollution.

The regular application of modest amounts of sulphur to the soil would therefore appear to be both a cheap and acceptable solution to what could otherwise turn out to be an expensive problem.

## MARKET REPORT

## London silver prices touch 14-month lows

LONDON SILVER prices tumbled yesterday afternoon to the lowest levels since December 1993, before substantial support stemmed the fall.

Liquidation of silver holdings could have been triggered by recent options-related business, traders said, and by concern about the prospect of stop-loss selling orders being triggered. Investment funds then jumped on the bandwagon, they added.

By the close the cash price stood at 453.50 cents a troy ounce.

"Support seems to be holding in the 450-cent area, with further help down to around 444 cents," said one. "But if that goes then it will be headed for 435 cents." Others thought a breach of the 450-cent mark

could precipitate a decline into the 420-430 cent area.

The GOLD market fell back with silver but showed reluctance to follow it to any great degree and limited its afternoon loss to just over a dollar. By the close it had recovered to \$376.10 an ounce, up 20 cents overall.

All base metal prices came under late selling pressure on the London Metal Exchange but ALUMINIUM looked most vulnerable, ending after hours "kern" trading just \$11 off the 1994 low of \$1,540 a tonne for delivery in three months.

"Aluminium is again trending lower with the potential for more trade and forward selling in the market," one trader said.

The COPPER market ended

up on the day but off the highs in subdued trade. Nearby positions moved into small discounts after being at premiums for most of the day. Nearby premiums, a reversal of the normal situation, indicate tightness of supplies available for nearby delivery.

ZINC prices took a battering just ahead of the close, the three months delivery position ending \$18 lower at \$1,030 a tonne.

World zinc smelter stocks rose 10,440 tonnes to 336,520 tonnes in January 1995 over December 1994, according to the European Zinc Institute and that weighed on the market.

At the London Commodity Exchange robust COPPER futures ended a bullish session

with sharp gains after drawing encouragement from New York's strong performance.

The May delivery contract ended \$7 up at \$3.25 a tonne after peaking at \$3.140, the highest level reached by the second position since November 22.

"All the news is constructive right now. London has been outperforming New York until today and now New York has finally made its break," said one trader.

Tight royalty supplies, dry weather conditions in Latin American producer countries and Brazil's stock release policy have all contributed to the bullish picture in London, dealers expect.

## Bigger world cotton crop forecast

The International Cotton Advisory Committee yesterday projected 1995-96 world cotton production at 19.52m tonnes and estimated 1994-95 output at 18.7m tonnes.

World exports were projected at 6.39m tonnes for 1995-96 and estimated at 6.43m for 1994-95. Cotton imports by China were estimated at 750,000

tonnes in 1994-95, or 11 per cent of the 6.8m-tonne world total, the committee said in a report. Because of uncertainty about future production and procurement prospects, the Chinese government was apparently trying to replenish state reserves, it said.

China was also forcing non-Chinese owned mills to import supplies in its effort to regain

control of the cotton system and foster price stability by building stocks.

The failure of government cotton companies to procure more than 75 per cent of the 1994-95 crop may be intensifying official fears of economic and political instability," the ICAC said.

Heavy buying in China was a key factor in the current price

strength, but 1995-96 imports might be lighter if government officials decided that no further additions to stocks are necessary, according to the report.

The committee put world consumption at 18.7m tonnes in 1994-95 and said that strong world economic growth might lift 1995-96 consumption to 19.35m tonnes.

## COMMODITIES PRICES

BASE METALS			
LONDON METAL EXCHANGE			
(Prices from Antiquated Metal Trading)			
ALUMINIUM 99.7 PURITY (5 per tonne)			
Cash	1824-5	1824-5	
Close	1824-5	1824-5	
Previous	1824-5	1824-5	
High/Low	1824-5	1824-5	
AM Official	1824-5	1824-5	
Kerb close	1824-5	1824-5	
Open Int.	2,759		
Total daily turnover	577		
LEAD (5 per tonne)			
Cash	574-4	574-4	
Close	574-4	574-4	
Previous	574-4	574-4	
High/Low	574-4	574-4	
AM Official	574-4	574-4	
Kerb close	574-4	574-4	
Open Int.	36,720		
Total daily turnover	5,659		
NICKEL (5 per tonne)			
Cash	7990-0	8120-5	
Close	8115-20	8050-5	
Previous	8050-5	8050-5	
High/Low	8050-5	8050-5	
AM Official	8050-5	8050-5	
Kerb close	8050-5	8050-5	
Open Int.	58,182		
Total daily turnover	11,277		
TIN (5 per tonne)			
Cash	5355-55	5450-60	
Close	5355-55	5450-60	
Previous	5355-55	5450-60	
High/Low	5355-55	5450-60	
AM Official	5355-55	5450-60	
Kerb close	5355-55	5450-60	
Open Int.	19,547		
Total daily turnover	5,584		
ZINC, special high grade (5 per tonne)			
Cash	1015-0	1040-1	
Close	1015-0	1040-1	
Previous	1015-0	1040-1	
High/Low	1015-0	1040-1	
AM Official	1015-0	1040-1	
Kerb close	1015-0	1040-1	
Open Int.	100,373		
Total daily turnover	53,767		
COPPER, grade A (5 per tonne)			
Cash	2872-4	2872-3	
Close	2872-4	2872-3	
Previous	2872-4	2872-3	
High/Low	2872-4	2872-3	
AM Official	2872-4	2872-3	
Kerb close	2872-4	2872-3	
Open Int.	226,725		
Total daily turnover	62,730		
LME AM Official 2 1/2 rate 1,625			
LME Closing 2 1/2 rate 1,625			
Spot 1,594 1/2 rate 1,525 1/2 rate 1,577 1/2 rate 1,574			
HIGH GRADE COPPER (COMEX)			
Cash	132.70	132.40	132.40
Close	131.85	131.50	131.50
Previous	131.85	131.50	131.50
High/Low	131.85	131.50	131.50
AM Official	131.85	131.50	131.50
Kerb close	131.85	131.50	131.50
Open Int.	125,615		
Total daily turnover	11,428		

PRECIOUS METALS continued			
GOLD COMEX (100 Troy oz. \$/troy oz.)			
Cash	376.0	376.0	
Close	376.0	376.0	
Previous	376.0	376.0	
High/Low	376.0	376.0	
AM Official	376.0	376.0	
Kerb close	376.0	376.0	
Open Int.	381.9		
Total daily turnover	173,141		
PLATINUM NYMEX (50 Troy oz. \$/troy oz.)			
Cash	411.2	411.2	
Close	411.2	411.2	
Previous	411.2	411.2	
High/Low	411.2	411.2	
AM Official	411.2	411.2	
Kerb close	411.2	411.2	
Open Int.	411.2		
Total daily turnover	2,759		
PALLADIUM NYMEX (100 Troy oz. \$/troy oz.)			
Cash	154.70	154.70	
Close	154.70	154.70	
Previous	154.70	154.70	
High/Low	154.70	154.70	
AM Official	154.70	154.70	
Kerb close	154.70	154.70	
Open Int.	154.70		
Total daily turnover	5,659		
SILVER COMEX (100 Troy oz. \$/troy oz.)			
Cash	445.9	445.9	
Close	445.9	445.9	
Previous	445.9	445.9	
High/Low	445.9	445.9	
AM Official	445.9	445.9	
Kerb close	445.9	445.9	
Open Int.	445.9		
Total daily turnover	5,659		

GRAINS AND OIL SEED			
WHEAT LCE (5 per tonne)			
Cash	101.20	101.20	
Close	101.20	101.20	
Previous	101.20	101.20	
High/Low	101.20	101.20	
AM Official	101.20	101.20	
Kerb close	101.20	101.20	
Open Int.	101.20		
Total daily turnover	101.20		
WHEAT COT (5,000 bushels, cents/bushel)			
Cash	35.4	35.4	
Close	35.4	35.4	
Previous	35.4	35.4	
High/Low	35.4	35.4	
AM Official	35.4	35.4	
Kerb close	35.4	35.4	
Open Int.	35.4		
Total daily turnover	35.4		
BARLEY LCE (5 per tonne)			
Cash	101.20	101.20	
Close	101.20	101.20	
Previous	101.20	101.20	
High/Low	101.20	101.20	
AM Official	101.20	101.20	
Kerb close	101.20	101.20	
Open Int.	101.20		
Total daily turnover	101.20		
SOYABEAN COT (5,000 bushels, cents/bushel)			
Cash	35.4	35.4	
Close	35.4	35.4	
Previous	35.4	35.4	
High/Low	35.4	35.4	
AM Official	35.4	35.4	
Kerb close	35.4	35.4	
Open Int.	35.4		
Total daily turnover	35.4		

SOFTS			
COFFEE LCE (5 per tonne)			
Cash	101.20	101.20	
Close	101.20	101.20	
Previous	101.20	101.20	
High/Low	101.20	101.20	
AM Official	101.20	101.20	
Kerb close	101.20	101.20	
Open Int.	101.20		
Total daily turnover	101.20		
COFFEE COT (5,000 bushels, cents/bushel)			
Cash	35.4	35.4	
Close	35.4	35.4	
Previous	35.4	35.4	
High/Low	35.4	35.4	
AM Official	35.4	35.4	
Kerb close	35.4	35.4	
Open Int.	35.4		
Total daily turnover	35.4		
COFFEE COT (5,000 bushels, cents/bushel)			
Cash	35.4	35.4	
Close	35.4	35.4	
Previous	35.4	35.4	
High/Low	35.4	35.4	
AM Official	35.4	35.4	
Kerb close	35.4	35.4	
Open Int.	35.4		
Total daily turnover	35.4		

MEAT AND LIVESTOCK			
LIVE CATTLE CME (40,000 lbs, cents/lb)			
Cash	72.30	72.30	
Close	72.30	72.30	
Previous	72.30	72.30	
High/Low	72.30	72.30	
AM Official	72.30	72.30	
Kerb close	72.30	72.30	
Open Int.	72.30		
Total daily turnover	72.30		
LIVE HOGS CME (40,000 lbs, cents/lb)			
Cash	38.12	38.12	
Close	38.12	38.12	
Previous	38.12	38.12	
High/Low	38.12	38.12	
AM Official	38.12	38.12	
Kerb close	38.12	38.12	
Open Int.	38.12		
Total daily turnover	38.12		
PORK BELT CME (40,000 lbs, cents/lb)			
Cash	42.15	42.15	
Close	42.15	42.15	
Previous	42.15	42.15	
High/Low	42.15	42.15	
AM Official	42.15	42.15	
Kerb close	42.15	42.15	
Open Int.	42.15		
Total daily turnover	42.15		

CATTLE AND LIVESTOCK						
CATTLE CME (40,000 lbs. contract)						
Month	Buy's	Offer	High	Low	Open	Sett
7/23-28	+0.075	73.600	72.875	73.800	5.773	
8/23-28	+0.075	73.600	72.875	73.800	5.773	
9/23-28	-0.190	84.275	83.500	84.275	7.223	
10/23-28	-0.190	84.275	83.500	84.275	7.223	
11/23-28	-0.025	87.100	85.500	87.100	1.340	
12/23-28	-0.025	87.100	85.500	87.100	1.340	
					75.237	5.869
HOGS CME (40,000 lbs. contract)						
7/23-28	+0.225	65.150	55.500	53.800	1.477	
8/23-28	+0.225	65.150	55.500	53.800	1.477	
9/23-28	+0.225	65.150	55.500	53.800	1.477	
10/23-28	-0.370	60.350	52.500	52.500	2.265	
11/23-28	-0.370	60.350	52.500	52.500	2.265	
12/23-28	-0.370	60.350	52.500	52.500	2.265	
PORK BELT CME (40,000 lbs. contract)						
7/23-28	+0.100	61.100	59.500	59.500	2.910	
8/23-28	+0.100	61.100	59.500	59.500	2.910	
9/23-28	+0.100	61.100	59.500	59.500	2.910	
10/23-28	+0.100	61.100	59.500	59.500	2.910	
11/23-28	+0.100	61.100	59.500	59.500	2.910	
12/23-28	+0.100	61.100	59.500	59.500	2.910	
LONDON TRADED OPTIONS						
Strike price 5 cents						
Cash	101					



## INTERNATIONAL CAPITAL MARKETS

## Italian prices drop in flight to quality

By Graham Bowley in London and Lisa Branstetter in New York

Italian government bonds fell sharply yesterday in a flight to quality triggered by the collapse of Barings, the UK merchant bank.

The yield premium over German government bonds widened to 578 basis points from 533 points at Friday's close as the lira fell on the foreign exchanges in a flight to the "safe haven" of the D-Mark.

Worries about inflation, the poor state of the country's public finances and domestic political troubles also weighed on prices.

The Italian March futures contract on Life fell by 1.42 points to 98.31.

Data showing a pick-up in producer and wholesale prices added to fears triggered last week following a sharp rise in consumer prices that inflation is accelerating.

Traders said there is unease that last week's interest rate increase prompted by the strong inflation data has added further to the country's already considerable debt service costs. There are also

fears that last week's emergency budget measures may not be fully implemented.

Spanish government bonds were also hit as the peseta weakened against the D-Mark. The yield spread over German bunds widened out to 462 basis points from 435 basis points on Friday. The futures contract on the Spanish exchange settled down 0.35 point to 84.15.

German government bonds moved higher, benefiting from their safe haven status in times of crisis.

This boosted shorter-dated maturities in early trading before longer-dated maturities caught up as the session progressed, when yields were about 8 basis points lower across the curve. In late trading, March bund futures on Life were up 0.71 points to 91.41.

UK government bonds rose slightly, despite the Barings crisis and weakness of the pound.

The long gilt futures contract on Life settled at 101.4, up 1/2 point. The yield spread

over bunds widened slightly to 153 basis points.

"We have been held up by the strength of the bund market and possibly by the consideration that in times of crisis funds flow to the government bond market," said Mr Chris Anthony, gilt strategist at ABN AMRO, Hoare Govett.

The long end of the gilt yield curve was the best performing area, with prices up around 1/2 point. Five-year gilts rose by about 1/2 point.

## GOVERNMENT BONDS

There was also an upward flurry in short sterling, said Anthony, "on the belief that the Bank of England would not be at pains to raise interest rates in circumstances like these and would want to continue to provide market liquidity".

French government bonds rose despite the weakness of the franc on the foreign exchanges.

The yield over bunds widened to 86 basis points before

narrowing back in to 63 basis points, broadly unchanged on the day.

The short-end of the yield curve underperformed, with yields rising by about 3 basis points. However, 10-year yields dropped 5 basis points, leading to a flattening of the curve.

Traders said an unpublished internal RPR opinion poll showing Mr Jacques Chirac, the Gaullist mayor of Paris, leading prime minister Edouard Balladur in the presidential contest could affect prices today.

US Treasury bonds were boosted yesterday morning by investors looking for safe havens in the wake of the collapse of Barings, but the coming wave of political and economic developments released this week proved more important to the market.

At midday, the benchmark 30-year Treasury was up 1/4 at 101.12 to yield 7.500 per cent. At the short end of the market, the two-year note gained 1/4 to 100.4, yielding 6.750 per cent.

Five-year notes rose in early morning trading in part due to the Barings losses in Japanese

derivatives, which caused turmoil on Asian equity markets, but by midday they had fallen slightly.

On Wednesday the Commerce Department is to release its revision to the 1994 fourth-quarter gross domestic product figure. A January estimate put GDP growth at 4.5 per cent and the median forecast has it holding steady. Some economists, however, believe the GDP estimate could be revised upward, and that might affect the market, which has priced in an economic soft landing.

Traders were also looking ahead to the release of February jobs figures, which are due a week from next Friday, and the balanced budget amendment, which the Senate is to vote on today. The measure, which bond traders believe would force fiscal austerity, has already passed the House of Representatives.

Another factor weighing on the market was the dollar's continued slide against the D-Mark and the Japanese yen. In morning trading, the dollar fell to DM1.461 from DM1.468 late on Friday and to Y96.75 from Y96.75.

## BIS plans survey on derivatives markets

By Richard Lepper

The world's biggest central banks are to take action to improve the transparency of international derivatives markets, according to a report published yesterday by the Bank of International Settlements in Basel. Banks and monetary authorities from 28 countries will conduct a wide ranging survey of international derivatives markets.

The survey, which will be conducted by the BIS, will involve a system of regular reporting by the main internationally active intermediaries in derivatives markets. The report also recommended numerous surveys of a larger number of participants.

The survey should help the work of the Basel Committee on banking supervision which is assessing banks' activities in derivatives - financial instruments which reflect the value of underlying financial assets.

The report notes that while the information requirements of the committee will differ in certain respects "there is a clear intention among the authorities concerned to minimise increases in reporting burdens by avoiding inconsistencies and duplication in data collection".

Recent reports by the G10 central banks noted that some aspects of derivatives markets can "adversely affect market liquidity and asset price volatility". They also pointed to a "lack of transparency in derivatives markets" which can make it difficult for "market participants and authorities alike to make informed judgments about the scale, structure and distribution of risk in these markets".

## Future of Baring eurobonds in doubt

By Corinne Middelmann

Market participants yesterday were uncertain about the future of three outstanding eurobonds issued by Barings, the failed UK merchant bank.

The bonds effectively stopped trading yesterday as the bank went into the hands of administrators Ernst & Young.

"It all depends on what happens to Barings - whether it gets sold off in lots of little pieces or whether a core will remain which could continue servicing the bonds," said one syndicate official.

Barings has issued a perpetual bond callable in 2004, and two issues of floating-rate notes, both due in 2001.

The \$100m of 9.25 per cent perpetual bonds were launched in January 1994, with Hoare Govett acting as lead manager. They closed at 98.875 last Friday.

A \$100m issue of FRNs was launched in January 1991 and paying an interest rate of 3 over the six-month London interbank

offered rate (Libor), was launched in January 1988. The notes closed at 98.40 on Friday.

The second FRN issue, \$100m of notes due March 2001, plus a three-month Libor plus 1/4 launched in 1994, closed on Friday at 98.875.

Barings also has several issues of irredeemable preference shares outstanding, which pay a fixed dividend.

They include \$2.5m of the 5.75 per cent shares, \$1.5m of 7.25 per cent, \$1.5m of the 8 per cent first preference shares, \$12.5m of the 8 per cent second preference shares and \$40m of the 8.75 per cent preference shares.

The floating-rate notes are currently worth some 15 to 25 cents on the dollar, estimates Gary Kleesch, chairman of Kleesch and Company, a trading house which specialises in distressed debt.

However, none of the bonds appeared to have changed hands yesterday, he said. "Everyone's in a shell-shock - those bonds were trading near par only last week."

## Unfavourable swap opportunities keep issuers at bay

By Corinne Middelmann

The recent lull in eurobond issuance continued yesterday, with traders complaining that unfavourable swap spreads were keeping issuers out of the market.

## INTERNATIONAL BONDS

"The dollar is where there's most investor demand, but there's not much arbitrage opportunity for dollar issues," said one syndicate official.

The collapse of Barings, the merchant bank, served as an additional excuse for inactivity, although it was not expected

to directly affect most eurobond market participants.

Standard & Poor's, the international credit rating agency, said the ratings on UK investment banks Morgan Grenfell, Robert Fleming, Schroders, J. Henry Schroder Wagg and SG Warburg Finance are not affected by the instability created by the placing of unrated Barings into administration.

Triple A rated Swiss-Italian Landesbank braved a tumbling lira market to issue \$150bn of bonds with a 2 1/2-year maturity. The bonds, which pay a coupon of 11.5 per cent, were issued at 100.985.

"We had some lead orders and saw some good demand for the issue, though it was not

NEW INTERNATIONAL BOND ISSUES									
Country	Amount	Coupon	Price	Maturity	Yield	Spread	Book runner		
US DOLLARS									
Caribbean	100	5.00	100.00	Nov 1999	0.00%		Swiss Bank Corp.		
Korea Int'l Merchant Bank	50	5.00	100.00	Mar 2000	0.35		KBS International		
SWISS FRANCES									
Landesbank	100	6.75	101.75	Dec 1999	1.50		Merrill Lynch Capital Markets		
ITALIAN LIRE									
Schweizerische LB	150bn	11.50	100.985	Sep 1997	1.275		Paribas Capital Markets		

## WORLD BOND PRICES

## BENCHMARK GOVERNMENT BONDS

Country	Coupon	Red Date	Price	Yield	Week ago	Month ago
Australia	9.000	09/04	95.5000	+0.580	10.23	10.29
Austria	7.500	01/05	98.2000	+0.290	7.61	7.71
Belgium	7.250	10/04	99.6700	+0.240	8.22	8.45
Canada	9.000	12/04	102.1000	+1.000	8.67	8.90
Denmark	7.000	12/04	98.6900	+0.200	8.77	8.85
France	6.000	05/05	101.8200	+0.270	7.51	7.54
Germany	7.500	01/05	100.1800	+0.450	7.34	7.41
Italy	8.250	01/05	98.0000	+0.150	8.01	8.78
Japan	4.800	06/09	103.8000	+0.320	3.80	3.87
Netherlands	4.100	12/03	98.4000	+0.620	4.35	4.56
Portugal	8.000	02/05	101.8200	+0.270	7.51	7.54
Spain	10.000	02/05	98.8000	+0.380	11.00	11.81
UK Gilt	6.000	09/09	99.25	+0.732	8.55	8.80
US Treasury	8.500	12/05	98.31	+0.632	8.85	8.87
US Treasury	8.000	10/08	100.18	+0.632	8.85	8.87
US Treasury	7.500	02/05	101.18	+0.632	7.28	7.43
US Treasury	7.000	02/05	101.18	+0.632	7.28	7.43
US Treasury	6.500	04/04	94.5000	+0.230	8.42	8.42

## US INTEREST RATES

Rate	Yield	Week ago	Month ago
1 month	5.57	5.57	5.57
3 month	5.81	5.81	5.81
6 month	6.14	6.14	6.14
9 month	6.43	6.43	6.43
12 month	6.43	6.43	6.43

## BOND FUTURES AND OPTIONS

## France

## NATIONAL FRENCH BOND FUTURES (MATF)

Month	Open	Settle	Change	High	Low	Est. Vol.	Open Int.
Mar	111.84	112.42	+0.48	112.44	111.56	114,819	136,555
Jun	111.84	111.86	+0.56	111.88	111.84	11,854	28,557
Sep	110.10	111.00	+0.58	111.02	110.16	1,753	4,029

## LONG TERM FRENCH BOND OPTIONS (MATF)

Strike	Apr	May	Jun	Jul	Aug	Sep
110	1.11	1.52	0.47	1.01	-	-
111	0.88	1.04	0.88	-	-	-
112	0.18	0.50	-	2.00	-	-
114	-	-	0.33	0.55	-	-

Est. Vol. total, Call 6,850 Put 13,500. Previous day's open int. Call 6,802 Put 13,621.

## Germany

## NATIONAL GERMAN BOND FUTURES (LIEFF)

Month	Open	Settle	Change	High	Low	Est. Vol.	Open Int.
Mar	90.80	91.32	+0.82	91.42	90.78	143,408	169,015
Jun	90.40	90.83	+0.82	90.91	90.30	20,862	52,735
Sep	89.33	90.32	-	-	-	8	191

## UK GILTS PRICES

Rate	Yield	Week ago	Month ago
1 month	5.57	5.57	5.57
3 month	5.81	5.81	5.81
6 month	6.14	6.14	6.14
9 month	6.43	6.43	6.43
12 month	6.43	6.43	6.43

## BUND FUTURES OPTIONS (LIEFF)

## MATF200,000 points of 100%

Strike	Apr	May	Jun	Jul	Aug	Sep
90.00	0.68	0.91	1.10	1.20	0.36	0.58
91.00	0.43	0.65	0.84	0.98	0.02	1.01
92.00	0.24	0.44	0.62	0.79	0.01	1.11

## NATIONAL ITALIAN BOND FUTURES (LIEFF)

## LIEFF200,000 points of 100%

Month	Open	Settle	Change	High	Low	Est. Vol.	Open Int.
Mar	97.45	96.07	-1.88	97.53	95.98	6,948	41,944
Jun	96.40	96.06	-1.85	96.40	95.05	6,967	7,797

## NATIONAL ITALIAN BOND FUTURES (LIEFF)

## LIEFF200,000 points of 100%

Strike	Apr	May	Jun	Jul	Aug	Sep
90.00	1.57	2.19	1.31	1.31	-	-
91.00	1.72	2.32	1.46	1.46	-	-
92.00	1.48	1.79	2.42	-	-	-

Est. Vol. total, Call 7,007 Put 21,533. Previous day's open int. Call 14,560 Put 10,676.

## Spain

## NATIONAL SPANISH BOND FUTURES (MEF)

Month	Open	Settle	Change	High	Low	Est. Vol.	Open Int.
Mar	84.40	84.15	-0.36	84.58	84.10	51,400	47,424
Jun	83.55	83.69	-0.15	84.35	83.35	559	2,433

## NATIONAL UK GILT FUTURES (LIEFF)

## LIEFF200,000 points of 100%

Month	Open	Settle	Change	High	Low	Est. Vol.	Open Int.
Mar	101.03	101.14	+0.04	101.24	101.01	50,639	64,098
Jun	101.18	101.23	+0.04	101.24	101.11	17,000	42,406

## LONG TERM UK GILT FUTURES (LIEFF)

## LIEFF200,000 points of 100%

Strike	Apr	May	Jun	Jul	Aug	Sep
101	1.14	1.39	1.60	2.48	0.64	0.57
102	0.44	0.64	0.85	1.22	1.43	1.18
103	0.30	0.42	0.61	1.00	1.30	1.15

Est. Vol. total, Call 6,850 Put 13,500. Previous day's open int. Call 6,802 Put 13,621.

## FT-ACTUATED FIXED INTEREST INDICES

## Price Indices

Index	27 Feb	28 Feb	29 Feb	1 Mar	2 Mar	3 Mar	4 Mar	5 Mar	6 Mar	7 Mar	8 Mar	9 Mar	10 Mar	11 Mar	12 Mar	13 Mar	14 Mar	15 Mar	16 Mar	17 Mar	18 Mar	19 Mar	20 Mar	21 Mar	22 Mar	23 Mar	24 Mar	25 Mar	26 Mar	27 Mar	28 Mar	29 Mar	30 Mar	31 Mar	1 Apr	2 Apr	3 Apr	4 Apr	5 Apr	6 Apr	7 Apr	8 Apr	9 Apr	10 Apr	11 Apr	12 Apr	13 Apr	14 Apr	15 Apr	16 Apr	17 Apr	18 Apr	19 Apr	20 Apr	21 Apr	22 Apr	23 Apr	24 Apr	25 Apr	26 Apr	27 Apr	28 Apr	29 Apr	30 Apr	1 May	2 May	3 May	4 May	5 May	6 May	7 May	8 May	9 May	10 May	11 May	12 May	13 May	14 May	15 May	16 May	17 May	18 May	19 May	20 May	21 May	22 May	23 May	24 May	25 May	26 May	27 May	28 May	29 May	30 May	31 May	1 Jun	2 Jun	3 Jun	4 Jun	5 Jun	6 Jun	7 Jun	8 Jun	9 Jun	10 Jun	11 Jun	12 Jun	13 Jun	14 Jun	15 Jun	16 Jun	17 Jun	18 Jun	19 Jun	20 Jun	21 Jun	22 Jun	23 Jun	24 Jun	25 Jun	26 Jun	27 Jun	28 Jun	29 Jun	30 Jun	1 Jul	2 Jul	3 Jul	4 Jul	5 Jul	6 Jul	7 Jul	8 Jul	9 Jul	10 Jul	11 Jul	12 Jul	13 Jul	14 Jul	15 Jul	16 Jul	17 Jul	18 Jul	19 Jul	20 Jul	21 Jul	22 Jul	23 Jul	24 Jul	25 Jul	26 Jul	27 Jul	28 Jul	29 Jul	30 Jul	31 Jul	1 Aug	2 Aug	3 Aug	4 Aug	5 Aug	6 Aug	7 Aug	8 Aug	9 Aug	10 Aug	11 Aug	12 Aug	13 Aug	14 Aug	15 Aug	16 Aug	17 Aug	18 Aug	19 Aug	20 Aug	21 Aug	22 Aug	23 Aug	24 Aug	25 Aug	26 Aug	27 Aug	28 Aug	29 Aug	30 Aug	31 Aug	1 Sep	2 Sep	3 Sep	4 Sep	5 Sep	6 Sep	7 Sep	8 Sep
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## CURRENCIES AND MONEY

## MARKETS REPORT

## Demise of Barings adds to D-Mark strength

The abrupt demise of Barings, the UK merchant bank, yesterday served only to accentuate further the strength of the D-Mark which has been a feature of markets recently, writes Philip Gosselin.

The principal victim was again the lira, which plummeted to a low of 1,167 against the D-Mark before being rescued by Bank of Italy support. It later closed at 1,169.

Currency weakness extended across the board. The peseta touched an all-time low of Ptas84.48, the Franc fell to FF73.87, its lowest level since October 1993, and the Swedish krona fell below SEK5 for the first time since last September.

The Barings factor appeared to be limited mainly to sterling. It served only to hasten what had anyway looked likely at the end of last week.

Starting had steadily, over the past few weeks, moved down towards its previous all-time low of DM2.3190.

reached in February 1993. It fell below this level in Asian trading, opening in London at DM2.3555, three pence below its Friday close of DM2.3308.

While foreign exchanges could have done without the further blow to confidence that came from the demise of Barings, its problems were already well in place.

Indeed, the stability of UK interest rates yesterday suggests that Barings is unlikely to be much of a factor even for sterling. The focus of sterling trading is now likely to shift towards the debate on Europe tomorrow, and a possible change in the date of the next summit.

Market sources were generally complimentary about the Bank of England's handling of the crisis.

There were numerous symptoms of exchange rate tension in Europe. Most conspicuous

was the support for the lira from the Bank of Italy. There were unconfirmed rumours that the central banks of Spain and Portugal also supported the lira.

German money markets also had an eventful day, with the Bundesbank taking the unusual step of offering an extra two-day fixed repo in order to alleviate and of month money market pressures.

Mr Johann Wilhelm Gaddum, deputy president of the Bundesbank, said the extra tender was intended to calm markets, particularly currency markets, given the current tensions there.

Currency market sentiment

dence of how illiquid the market had become.

Another example of tensions came from the activities of the Bank of France in the French money markets. Although there was no movement in official rates, the Bank allowed

money to rise by 1 per cent to 5 1/2 per cent, the first time this rate has moved since July. Analysts said the Bank was trying to calm nerves, given the speed of the franc's decline in recent days.

German money markets also had an eventful day, with the Bundesbank taking the unusual step of offering an extra two-day fixed repo in order to alleviate and of month money market pressures.

Mr Johann Wilhelm Gaddum, deputy president of the Bundesbank, said the extra tender was intended to calm markets, particularly currency markets, given the current tensions there.

Currency market sentiment

## ALL-ROUND SPOT FORWARD AGAINST THE POUND

Feb 27		Closing mid-point	Change on day	Std/offer spread	Day's high	Low	One month 90 days
Europe							
Australia	(Sch)	16.2194	-0.1768	118 - 269	16.4301	16.1556	16.2009
Belgium	(Bf)	47.5857	-0.4446	435 - 481	47.7400	47.3350	47.5287
Denmark	(DK)	61.5783	-0.059	178 - 615	61.9355	61.556	61.7115
France	(F)	162.194	-0.017	712 - 676	171.00	161.99	162.00
Germany	(Ff)	61.5114	-0.055	288 - 340	61.8191	61.504	61.281
Italy	(DA)	2.2072	-0.025	096 - 059	2.2311	2.2948	2.2041
Greece	(G)	367.362	-	1000 - 870	369	367	367
Ireland	(Ir)	10.2936	-0.001	970 - 939	10.0004	9.9905	9.9976
Japan	(J)	2692.30	+0.40	100 - 402	2699.00	2679.87	2691 - 3
Netherlands	(Lp)	47.5857	-0.4446	435 - 481	47.7400	47.3350	47.5287
Norway	(N)	2.2072	-0.025	096 - 059	2.2311	2.2948	2.2041
Portugal	(P)	10.2936	-0.001	970 - 939	10.0004	9.9905	9.9976
Spain	(E)	236.828	-2.324	330 - 794	240.123	238.467	240.262
Sweden	(S)	203.863	-1.402	591 - 817	204.193	203.775	204.002
Switzerland	(Sf)	11.2569	-0.103	456 - 481	11.4025	11.0353	11.6372
United Kingdom	(SP)	1.9393	-0.0229	562 - 603	1.9679	1.9475	1.9543
USA	(S)						
Ecu	(E)	-1.2452	-0.0068	426 - 437	1.2462	1.2353	1.2426
Yen	(Y)	0.039108					
Asia							
Americas							
Argentina	(A)	1.5824	+0.001	858 - 826	1.2958	1.5765	-
Brazil	(C)	1.3459	+0.001	432 - 485	1.2485	1.3893	-
Canada	(Cn)	0.9045	+0.001	432 - 485	0.9131	0.9126	-1
Mexico	(New Peso)	0.5525	+0.0346	342 - 078	0.6070	0.2714	-
USA	(C)	1.9629	-0.0102	821 - 826	1.5909	1.9278	1.5816
Pacific/India/South Africa							
India	(I)	9.2459	-0.0043	394 - 418	2.1418	2.1298	2.1423
Hong Kong	(Hk)	12.2347	-0.0096	312 - 362	12.2589	12.1894	12.2337
India	(F)	46.8910	+0.044	821 - 950	46.7370	46.4600	-
Japan	(J)	2692.30	+0.40	100 - 402	2699.00	2679.87	-
Malaysia	(J)	153.016	-0.798	923 - 104	154.000	152.800	152.425
Malaysia	(J)	4.0414	+0.0228	401 - 429	4.0480	4.0289	-
New Zealand	(NZ)	2.2489	-0.0108	890 - 916	2.4620	2.4091	2.4936
Oman	(O)	1.3459	+0.001	432 - 485	1.2485	1.3893	-
Saudi Arabia	(Sf)	5.9347	+0.0023	390 - 384	5.9444	5.9094	-
Singapore	(S)	2.2251	+0.0003	942 - 950	2.3011	2.2875	-
S. Africa (Com)	(F)	6.8989	-0.0144	964 - 012	6.7258	6.6748	-
S. Africa (Rand)	(F)	1.2454	-0.001	432 - 485	1.2485	1.3893	-
South Korea	(Wk)	1244.36	+0.27	401 - 417	1245.97	1239.05	-
Thailand	(T)	11.6590	-0.0342	472 - 698	11.7164	11.4172	-
Turkey	(R)	39.4743	-0.0209	570 - 590	39.5490	39.3920	-

Source: Reuters for Feb. 26, 1994. Data for the 90-day period are the 90-day rate in the Pound Spot market and are not officially quoted in the market but are implied by current interest rates. Shadowing lines indicate the bid and offer for the 90-day period. The Day's High and Low are in both the bid and offer Spot market. Bid and offer are in the Pound Spot market.







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MARKET REPORT

Initial losses reduced as confidence revives

By Terry Byland, UK Stock Market Editor

Fears that the collapse of Barings, Britain's oldest merchant bank, might threaten the global banking network receded in London yesterday afternoon and UK shares recovered a good part of their early losses. Financial sector stocks closed lower but the broad range of the market rallied with sterling as both the UK chancellor of the exchequer and the governor of the Bank of England sought to reassure the City investment community.

Share prices were marked down heavily as soon as London opened and marketmakers faced the implications of the Barings disaster, the 3.8 per cent drop by the Tokyo market and the fall by sterling to a record low against the D-Mark.

Within moments of the official opening, the FT-SE 100 Index was down nearly 50 points, having advanced the 3,000 level. But there was very little selling indeed, with investors and marketmakers content to stay on the sidelines.

The stock market steadied cautiously with the help of firmness in British government bonds and a rally in sterling. The Footsie loss was trimmed to around 14 points ahead of Wall Street's opening but there was little buying support.

The picture finally brightened when Wall Street, after some uncertainty, managed to hold on to the Dow Jones Industrial Average 4,000 mark in early trading, showing a decline of only three points in UK hours.

UK traders hoped this would set the stage for calmer trading in Far Eastern markets. At the close the FT-SE 100 had rallied to 3,025.3 for a loss on the day of only 12.4 points. Trading volume was still low, however, and dealers agreed that London remains vulnerable to developments in currencies as well as in New York and Tokyo securities markets overnight.

Equity prices were slipping back again at the close.

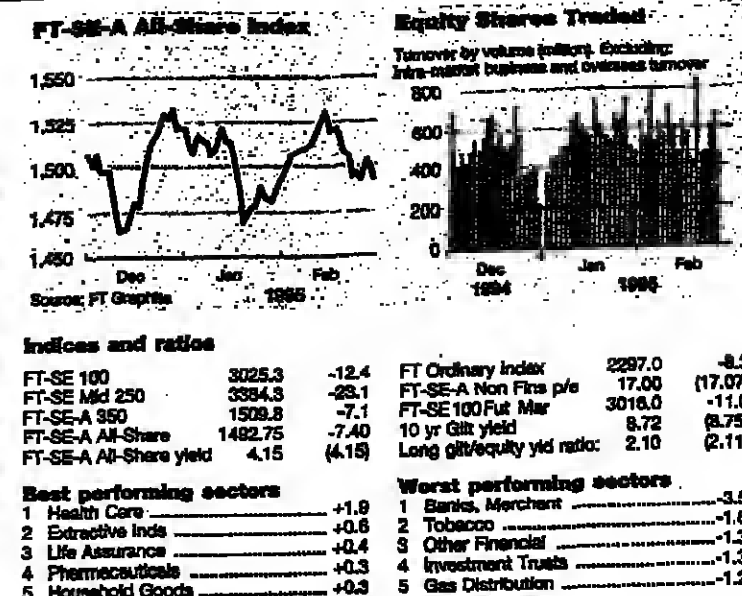
Hardest hit in the initial market

down were the UK merchant banks, which have been under a cloud for some time because of perceived losses in securities trading. Traders feared that any bank which had done business with Barings would now have to wait a long time for its money. Yet more unsettling was the possibility that other banks might have suffered losses in the derivatives markets which brought Barings down. Either possibility could affect confidence in any bank seen as at risk.

Concern over the Barings situation dominated the market, pushing individual company developments to the sidelines. Shares in HSBC drew little benefit from market set-

back by a good trading statement showing reduced debt losses and improved UK activities. The recovery in the FT-SE 100 Index was guided by similar moves in the March futures contract, which had also dipped below 3,000 in early trading. But the FT-SE Mid 250 Index, lacking a lead from the future, finished 23.1 down on the day at 3,384.3.

Seag trading volume of 384.9m shares was unimpressive, confirming that share price falls were the result of marking down operations by marketmakers rather than genuine selling pressure. On Friday, 471.3m shares traded through Seag for a retail value of £1.24bn.



Indices and ratios

FT-SE 100	3025.3	-12.4	FT Ordinary Index	2297.0	-8.3
FT-SE Mid 250	3384.3	-23.1	FT-SE Non Fin p/s	17.00	(17.07)
FT-SE A 350	1509.8	-7.1	FT-SE 100 Div Yield	3.01	11.0
FT-SE A All-Share	1492.7	-7.40	10 yr Govt yield	8.72	(8.79)
FT-SE A All-Share yield	4.15	(4.19)	Long Gilt yield ratio	2.10	(2.11)

held out a penny for the devil.

Portfolios ahead of results, Jan. 28, 1992

■ FT-SEE 100 INDEX OPTION (LEFF) (2004) 210 per full index point

	2000	2100	2200	2300	2400	2500	2600	2700	2800	2900	3000	3100	3200	
	C	P	C	P	C	P	C	P	C	P	C	P	C	P
Mar	174	8	128	9	82	10	42	76	62	89	88	213	176	158
Apr	170	12	128	10	82	10	42	76	62	89	88	213	176	158
May	169	22	180	14	123	5	77	71	110	101	48	128	36	224
Jun	207	30	274	18	151	18	89	89	144	130	143	47	177	215
Sept	261	57					180	134						

Call: 8750 Style A, 678

■ EURO STYLE FT-SEE 100 INDEX OPTION (LEFF) 2100 per full index point

	2000	2100	2200	2300	2400	2500	2600	2700	2800	2900	3000	3100	3200		
	C	P	C	P	C	P	C	P	C	P	C	P	C	P	
Mar	193	20	140	25	107	13	65	24	35	42	135	74	8	114	175
Apr	198	15	138	18	121	24	88	24	35	42	135	74	8	114	175
May	200	28	152	47	180	22	127	80	88	101	74	127	57	127	180
Jun	220	58	192	47	180	22	127	80	88	101	74	127	57	127	180
Sept	287	54													

Call: 1,570 Style B, 2,095 • Underlying index value. Premiums shown are based on settlement prices.

Pressure on bank sectors

The banking sectors of the stock market were given a severe mauling by the demise of Barings as both marketmakers and the big institutions tried to pinpoint the trading houses likely to suffer from the fallout.

The clearing banks, merchant banks and brokerages with substantial derivatives trading divisions were always in the firing line and suffered badly during initial dealings before stabilising as the day wore on.

Analysts specialising in the financial services area said the London market showed no signs of panicking at the opening, marking share prices lower and leading off any attempted selling. After an initial small flurry of selling, the marketmakers got control and ensured an orderly market, said one dealer.

In the merchant banks, the big derivatives market operators were obvious targets for the bears, with S.G. Warburg ending a net 35 lower at 653p after heavy turnover of 1.8m.

AAH soars

Shares in AAH, the north of England pharmaceuticals distributor, soared in an otherwise lacklustre session as the group rejected a hostile 237m bid from Gehe, the German pharmaceutical wholesaler.

The shares registered the day's biggest gain in the market in percentage terms as they raced 122 ahead to close at 431p, well above the 420p a share value of the offer.

AAH has issued two profits warnings since December and dealers said the bid was not a complete surprise. One commented: "It seems very likely that they will get it. However, there was a suggestion that Gehe may have to raise its offer to win control." Volume stood at 3.5m at the close.

The bid for AAH sparked interest for several other stocks. These included Unichem, 7 firmer at 253p, and Lloyds Chemists, 8 higher at 250p ahead of next week's set of interim figures.

There were widespread losses across the regional electricity companies (reco), still reflecting the market's disappointment with the terms of the increased bid by Trafalgar House for Northern Electric.

Falls were reduced by the close, however, and some of the so-called takeover targets in the sector finished only marginally easier on the day.

Yorkshire Electricity, regarded by many analysts as a takeover target for Hanson, settled only a penny off at 831p after turnover of 1.2m.

Drugs and medical equipment group Plisons was in demand and improved 2 to 127p in trade of 5.2m, as the market waited for details of the group's reorganisation, which is said to include disposals worth 500m. The plan is to be announced with the group's results expected on March 7.

On Thursday and NatWest Securities urged investors to buy the stock. It said: "The results themselves should show a continuation of the trends experienced in the first half, with particularly strong growth from the agrochemicals division and a sharp decline in the level of interest payable combining to produce solid growth in earnings."

Vague talk of a rival for Ratoriv, Wellcome's leading herpes drug, led to some initial weakness in the stock. It recovered to close unchanged at 1011p. Glaxo ended 4 1/2 ahead at 634 1/2p as it held a presentation at Hoare Govett.

Composite insurers put on a good performance, given the early steep decline in the market. General Accident, reporting preliminary figures this morning and expected to produce pre-tax profits of around 540m and a 5 per cent increase in the dividend total, ended 2 to 544p.

Some of the life assurance stocks, meanwhile, made firm strong progress after last week's news of the agreement between United Friendly and the Department of Trade and Industry on the treatment of the "arbitrage fund".

Refugee and Britannic, seen by many analysts as likely to go down the same route as United Friendly and to have the potential to provide big dividend increases for shareholders, were the best performers. Refugees jumped 13 to 336p and Britannic 7 to 512p.

Hope for a solid start to the engineering results season underpinned gains at Vickers and British Aerospace, while Slesbe and TI Group - up 3 apiece - were picked out for their currency earner status as starting widely.

FUTURES AND OPTIONS

FT-SE 100 INDEX FUTURES (LFFE) 25 per full index point (APR)

	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Mar	2999.0	3016.0	-11.0	3035.0	2991.0	14412	54988
Jun	3003.0	3023.0	-11.5	3034.5	3001.0	2712	13728
Sep		3040.0	-11.5			0	173

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**FIDELITY AMERICAN ASSETS N.V.**  
(In liquidation)  
Registered office: 36 Kaya WFG (Jombi) Mensing  
Curacao, Netherlands Antilles

**NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS**

Please take notice that the Annual General Meeting of Shareholders of Fidelity American Assets N.V. (the "Corporation") will take place at 36 Kaya WFG (Jombi) Mensing, Curacao, Netherlands Antilles, on March 21, 1995.

The following matters are on the agenda for this Meeting:

1. Approval of the balance sheet and profit and loss statement for the fiscal year ended November 30, 1994.
2. Consideration of such other business as may properly come before the Meeting.

Approval of each item of the Agenda will require the affirmative vote of a majority of the votes cast at the Meeting.

Holders of registered shares may vote by proxy by mailing a form of registered shareholders proxy which will be sent to them by the Fund's Registrar and Transfer Agent, Fidelity Investments Luxembourg S.A., registered shareholders may also obtain a form of registered shareholder proxy from the institutions listed below.

Holders of bearer shares may vote by proxy by mailing a form of proxy and certificate of deposit for their shares to the Corporation at the following address:

Fidelity American Assets N.V.  
c/o AMACO Holdings & Trust Company N.V.  
Post Office Box 3141  
Curacao  
Netherlands Antilles

Bearer shareholders may obtain a form of bearer shareholder proxy and certificate of deposit from the following institutions:

Fidelity Investments Luxembourg S.A.  
Kansallus House  
Place de l'Etoile  
L.P. 2174  
L-1021 LUXEMBOURG

Fidelity International Limited  
PO Box HM 670  
Hamilton HM CX Bermuda

Alternatively, holders of bearer shares wishing to exercise their rights personally at the Meeting may deposit their shares, or a certificate of deposit, with the Corporation at 36 Kaya WFG (Jombi) Mensing, Curacao, Netherlands Antilles, against receipt therefor, which receipt will entitle said bearer shareholder to exercise such rights.

All proxies (and certificates of deposit issued to bearer shareholders) must be received by the Corporation not later than 1.00 PM on March 21, 1995, in order to be voted at the Meeting.

Dated: February 17, 1995

By Order of the Board of Liquidators

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TECO Electric & Machinery Co. Ltd  
US\$100M 7.75% Bonds due 2004

TECO Electric & Machinery Co. Ltd (the "issuer") hereby notify you that, following the receipt by the Securities and Exchange Commission of the SEC (the "SEC") on 28th December, 1994 of registration statements for the conversion of the issuer's bonds into Global Depository Receipts ("GDRs"), the issuer is preparing to apply to the SEC for approval to implement procedures for conversion by holders of the bonds into GDRs evidencing shares of the issuer.

February 28, 1995, London  
By: Citibank, N.A. (Issuer Services), Agent Bank

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**NORWEB**

**Notice of Reduced Interest Payment Date**

**Republic of Ecuador**  
PDI Bonds due 2015

Pursuant to the terms of the PDI Bonds, the Republic of Ecuador has elected to capitalize a portion of the interest payable for the Interest Period from February 28, 1995 to August 28, 1995. Therefore, August 28, 1995 will be a Reduced Interest Payment Date.

By: The Citibank Trustee, N.A. as Special Agent

February 23, 1995

**SECURITIES AND FUTURES**



## WORLD STOCK MARKETS

[illegible]




## NEW YORK STOCK EXCHANGE COMPOSITE PRICES


[illegible]

Continued on next page

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**NASDAQ NATIONAL MARKET**

**THE EAST INDIA COMPANY**

Stock	Dr	Pr	100s	Hg	Low	Last	Chg	Stock	Dr	Pr	100s	Hg	Low	Last	Chg	Stock	Dr	Pr	100s	Hg	Low	Last	Chg
ABG Ind Inc	0.20	11	24	12 1/2	11 1/2	12 1/2	+	Delco Co	0.10	29	249	22 1/2	20 1/2	20 1/2	+ 1/4	Eastman	0.12	11	140	12 1/2	12 1/2	12 1/2	+ 1/2
ABC Corp	0.12	10	45 1/2	17 1/2	15 1/2	16 1/2	+	Deere & Co	0.84	10	23	17 1/2	16 1/2	16 1/2	+	— K —							
Academy	0.20	14	27 1/2	15 1/2	15 1/2	15 1/2	+	Dell Corp	0.10	29	126 1/2	12 1/2	11 1/2	11 1/2	- 1/4	Kaiser	0.80	8	126	18 1/2	14 1/2	14 1/2	+
Academy C	0.10	10	150	12 1/2	11 1/2	11 1/2	+	Delta	0.10	29	126 1/2	12 1/2	11 1/2	11 1/2	- 1/4	Kellogg	0.04	12	361	11 1/2	11 1/2	11 1/2	+
Academy C	0.10	10	150	12 1/2	11 1/2	11 1/2	+	Delta	0.10	29	126 1/2	12 1/2	11 1/2	11 1/2	- 1/4	Kellogg	0.04	12	361	11 1/2	11 1/2	11 1/2	+
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Academy C	0.10	10	150	12 1/2	11 1/2	11 1/2	+	Delta	0.10	29	126 1/2	12 1/2	11 1/2	11 1/2	- 1/4	Kellogg	0.04	12	361	11 1/2	11 1/2	11 1/2	+
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Academy C	0.10	10	150	12 1/2	11 1/2	11 1/2	+	Delta	0.10	29	126 1/2	12 1/2	11 1/2	11 1/2	- 1/4	Kellogg	0.04	12	361	11 1/2	11 1/2	11 1/2	+
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Academy C	0.10																						

Harding A	10	38	0	57 $\frac{1}{2}$	57 $\frac{1}{2}$	-2 $\frac{1}{2}$	Nonmanagement	20	701	33 $\frac{1}{2}$	0.53	21	21	100%
Harlowville	0.68	16	0	23 $\frac{3}{4}$	23 $\frac{3}{4}$	23 $\frac{3}{4}$	Howport Co	0.04	16	201	71 $\frac{1}{2}$	77 $\frac{1}{2}$	77 $\frac{1}{2}$	+1 $\frac{1}{2}$
							Mobile Dr	47	633	52 $\frac{1}{2}$	52 $\frac{1}{2}$	52 $\frac{1}{2}$	52 $\frac{1}{2}$	-1 $\frac{1}{2}$

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AMERICA Dow volatile as bonds ride quality flight

Wall Street US share prices were volatile around Friday's closing levels yesterday morning as traders reacted to the collapse of Barings and prepared themselves for a spate of economic news to be released later this week, writes Lisa Branstetter in New York.

By 1 pm the Dow Jones Industrial Average was off 2.07 at 4,009.67. The Standard & Poor's 500 slipped 1.46 to 486.80 and the American Stock Exchange composite lost 1.11 at 449.51. The Nasdaq composite declined 1.75 to 789.33. Trading volume on the NYSE was 145m shares.

The market drew some support from a rising bond market, which benefited from a flight to quality as Asian equity markets suffered the effects of the Barings collapse. The dollar, however, suffered as investors sought shelter in the D-Mark.

Volume was light compared with recent days as investors hung back in anticipation of economic news due to be released later this week and next week. On Wednesday, the commerce department is to put out revised figures on fourth quarter gross domestic product, and many were waiting to see whether the economy could be brought to a soft landing.

Salomon lost 3/4 at \$38.64 after the securities house announced that it had found additional losses caused by a yen swap. The loss had been overlooked when the group announced its fourth quarter 1994 results.

American Depository Receipts of Mexican companies fell after the government said that it planned to do away with revised wage and price control agreements made in the wake of the crisis in that country's financial markets.

The benchmark Telcel hit a 52-week low, shedding 1 1/4 at \$26. Grupo Televisa lost 1/4 at \$54, Grupo Televisa was off 1/4 at \$15 and Vitro was \$8 1/2 lower at \$84.

Boston Scientific rose 1/4 at \$21 1/2 after an analyst at Bear Stearns upgraded the company to buy from neutral.

Schwitzer rose 1/4 at \$10 1/2 after the engine manufacturer announced that it would merge with Kuhlman. Kuhlman was off 1/4 at \$12 on the news.

Canada Toronto was lower in quiet midday trade as investors awaited Canada's federal budget later in the day. The TSE 300 composite index was 6.10 down at 4,114.01 by noon in volume of 24.3m shares.

Of Toronto's 14 sub-indices, 11 sectors were lower, led by declines in gold, conglomerates and pipelines.

Among improving groups, financial services rose 9.45 to 3,182.72 as Toronto-Dominion Bank picked up C\$4 to C\$21 and Royal Bank of Canada improved C\$4 to C\$28.75.

Latin America

Brazil's financial markets, closed for Carnival, reopen on Thursday.

MEXICO fell back as uncertainties emerged regarding the government's economic programme, in the continued absence of an announcement, expected at the weekend. The IPC index was 3.5 per cent lower at 1,500.03 in low turnover.

BUENOS AIRES, waiting for details of an austerity budget, was off nearly 4 per cent by mid-morning. The Merval index had fallen 13.46 to 321.29. The market was expecting spending cuts of up to \$1bn.

Johannesburg mostly lower

Equities in Johannesburg were easier in reaction to a lower gold bullion price and the Barings situation.

Dealers said fears of immediate selling of South African holdings had not materialised, although the removal of one of the bigger emerging markets operators from the market had made an impact.

The overall index declined 33.5 to 3,141.7, industrials dipped 87.5 to 1,535.9 and golds fell 57.3 to 1,541.5.

Engen shed R1.25 to R27.75 on the announcement of a petrol price increase.

## MARKETS IN PERSPECTIVE

	% change in local currency ↑			% change in US \$ ↑	% change in US \$ ↑
	1 Week	4 Weeks	1 Year	Start of 1985	Start of 1985
Australia	+1.72	+1.20	-16.82	-5.31	-1.44
Belgium	-0.74	+0.02	-10.07	-1.84	+1.70
Denmark	-0.58	+0.78	-15.47	-0.80	+2.28
Finland	-2.10	-3.98	-14.09	-3.97	+1.11
France	-0.84	+0.32	-17.78	-3.17	-1.25
Germany	-0.22	+3.87	-2.34	-0.48	+3.48
Ireland	-0.42	+2.08	+2.70	+2.24	+3.24
Italy	-5.47	-6.70	-2.56	-1.00	-3.45
Netherlands	-0.75	-0.78	-2.69	-0.86	+2.99
Norway	-1.91	-2.74	-3.96	-4.82	-2.17
Spain	-1.19	-0.35	-16.14	-1.40	+1.03
Sweden	-0.15	+0.62	-0.83	+3.65	+4.74
Switzerland	+0.97	+3.05	-8.92	-0.44	+2.84
UK	-0.31	+0.46	-8.10	-1.12	-1.12
EUROPE	-0.84	+0.59	-8.28	-1.10	+0.40
Australia	+2.97	+2.45	-10.35	-0.41	-5.58
Hong Kong	+2.45	+1.96	-20.36	-2.36	+1.35
Japan	-2.08	-2.51	-14.75	-12.20	-10.90
Malaysia	-2.87	+15.23	-16.47	-0.85	-0.24
New Zealand	+0.05	+2.58	-6.36	+5.70	+3.29
Singapore	+0.02	+4.80	-8.84	-6.08	-6.62
Canada	+0.87	+2.08	-0.33	-1.61	-2.10
USA	+1.22	+3.71	-5.70	-6.42	+5.28
Mexico	-12.12	-17.86	-34.16	-30.53	-0.66
South Africa	+1.50	+0.59	+7.69	-12.99	-9.47
WORLD INDEX	-0.23	+1.18	-5.88	-2.21	-1.96

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EUROPE Banks fall in backwash of the Barings debacle

Leading banks fell in the backwash as Barings sank, writes Our Markets Staff. However, some individual characteristics were involved: SBC, in Switzerland, and Société Générale, in France, were noted for their high profile derivatives operations, said Mr Bryan Crossley at ABN-Amro Hoare Govett; and Deutsche Bank, leading a weak sector down in Frankfurt, has suffered from a string of problems recently.

FRANKFURT pulled in its horns, turnover dropping from DM5.5bn to DM3.2bn as the Dax index ended down 19.39 at 2,095.25.

In general, share prices improved over the course of the day, the key index pulling up from an all-time low of 2,090.53 in the early morning, and recovering after hours to close at 2,106.05.

Deutsche Bank still fell DM10.80 to DM716. But the banking sector was almost matched for weakness by automotive shares which, in spite of some recovery after hours, saw Daimler drop 7.00 to DM74.30, Volkswagen down DM4.50 to DM400 and Continental, the tyre maker, off DM5.50 to DM222.50.

Mr Christopher Will, automotive industry analyst at Lehman Brothers, said the

recent weakness based on the IG Metall strike and the recall of up to 5m Opel and Volkswagen Golf and Jetta models might have been ignored in other circumstances. "The big problem for the Germans," he said, "is that their domestic market has not really recovered at all although, everywhere else in Europe, we are a year into recovery."

FABIS turned higher in late trading to scrap above the 1,800 level at the close, having seen the CAC 40 index as low as 1,776.62 during the session. The market finished with a marginal loss of 3.57 at 1,802.17 in turnover of FF7.2bn.

ASIA PACIFIC

Nikkei at 14-month low as Manila drops 4 per cent

Financials declined heavily. Industrial Bank of Japan fell ¥110 to ¥2,350, Mitsubishi Bank ¥100 to ¥2,110, Nomura Securities ¥80 to ¥1,630 and Nikko Securities ¥30 to ¥780.

Construction issues were traded strongly, with Sumitomo Construction, the most active issue of the day, off ¥3 at ¥735 and Fudo Construction dipping ¥30 to ¥1,050.

The high-technology sector had Hitachi down ¥16 to ¥280 and Sony off ¥240 to ¥4,030. Large-cap shares retreated, Nippon Steel losing ¥8 at ¥332.

Nippon Telegraph and Telephone fell ¥15,000 to ¥84,000 and Japan Tobacco ¥35,000 to a new low of ¥775,000.

In Osaka, the OSE average tumbled 83.83 to 15,420.28 in volume of 31.5m shares.

Arbitrageurs rushed to liquidate cash market positions as futures prices plummeted. The Osaka Securities Exchange tried to slow down futures trading by releasing the normal price for the Nikkei 225 futures every 10 minutes instead of every three.

Futures traders said they had been aware of the massive positions accumulated by Barings for the past month, but that they had thought the positions were hedged or that they were for clients.

Strong futures prices and arbitrageurs' cash market buying had been the main factors holding up share prices during the previous few weeks. With the settlement date for March futures on March 10, traders expect a further wave of futures and arbitrage selling over the next few days.

Domestic brokers worried over the methods by which Barings' own positions will be liquidated, and the losses on the positions settled. Both the Tokyo Stock Exchange and the OSE froze positions held by Barings until an official decision is made. "It could mean that other brokerages will have to bear the burden," said a Japanese brokerage official.

The majority of investors, including domestic institutions and overseas fund managers, stayed on the sidelines. Volume amounted to 300m shares, against a previous 267m.

Roundup

The Barings collapse left the region nervous, and the uncertainty was reflected in falling volume in many centres.

TAIPEI took one of the biggest falls on the day in the region, the weighted index finishing 202.79 weaker at 6,368.57 but after a day's low of 6,284.75. Turnover was T\$56bn.

Sentiment was also affected by the central bank's decision to lift the rediscount rate by 0.3 percentage point to 5.8 per cent at the weekend. The textile and paper sectors, strong in recent sessions, bore the brunt of the falls, with the sub-indices both losing 4.3 per cent. Hualon dropped 6.15 per cent to T\$36.60 and Taiwan Pulp and Paper by the daily permissible 7 per cent limit to T\$42.

SEOUL was nervous as the Ministry of Finance and Economy said the local branch of Barings Securities was believed to have invested more than Won300bn in the market.

The composite stock index lost 18.00 at 894.60 after touching 892.22, with the mood soured further by unconnected trading halts in two small companies, amid worries about a credit crunch.

Against the trend, Hyundai Motor went limit up, climbing Won1,300 to Won37,300 in response to news that it was the only domestic car manufacturer to show record earnings in 1991.

FT-SE Actuaries Share Indices

THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Actuaries 100	1285.34	1286.75	1286.59	1284.04	1283.03	1281.41	1284.19	1287.77
FT-SE Actuaries 200	1352.59	1352.18	1354.71	1355.47	1355.71	1355.29	1354.14	1358.77

Feb 27

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Actuaries 100	1285.34	1286.75	1286.59	1284.04	1283.03	1281.41	1284.19	1287.77
FT-SE Actuaries 200	1352.59	1352.18	1354.71	1355.47	1355.71	1355.29	1354.14	1358.77

Feb 28

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Actuaries 100	1285.34	1286.75	1286.59	1284.04	1283.03	1281.41	1284.19	1287.77
FT-SE Actuaries 200	1352.59	1352.18	1354.71	1355.47	1355.71	1355.29	1354.14	1358.77

Financial stocks were upset by the Barings collapse, with Société Générale among the biggest fallers, down FF10 or 2 per cent at FF498, but off an intraday low of FF495.10. There were worries about the bank's own exposure to derivatives contracts since it was believed to hold the largest position among the French financial institutions. However, one banking analyst in London commented that as long as this episode was an isolated case any knock-on effect could be avoided.

Elsewhere in financials, Paribas shed FF1.30 to FF303.80, BNP FF5 to FF234 and UAP FF1.50 to FF118.80.

ZURICH was lower in response to the weaker dollar and mild pressure on financials. The SMI index finished 15.5 down at 2,607.5.

UBS bearers ended SF10 off at SF1,087, demonstrating further disappointment with last week's figures and as the war of words with Mr Martin Ehner dragged on. Bearers shares in SBC, more heavily engaged in derivatives trading than the other two big Swiss banks, lost SF8 at SF738.

CS Holding, unveiling annual figures on Thursday, was SF16 down at SF7513.

On the opposite tack, Alu-

ing its headquarters. The market expects Fokker to report 1994 losses of some F145m when it publishes its annual results next month.

MILAN continued to weaken as the acrimonious political situation and uncertain passage through parliament of the government's deficit cutting measures put further pressure on the lira and bonds.

The Comit index lost 11.13 or 1.8 per cent to 616.39 while the real-time Mibtel index picked up from a day's low of 9,900 to finish 112 weaker at 9,896.

A steadier trend among recently hard hit industrial shares helped the market off its lows. Olivetti rose L20 to L1,799 and Montedison was just L1 easier at L1,198.

The telecommunications sector, hurt by rising interest rates, remained weak. Telecom Italia lost L102 to L3,953 and Stet was L141 down at L4,588.

THE DAYS CHANGES

	% Change
Manila	-4.0
Taipei	-3.8
Tel Aviv	-3.0
Shanghai	-2.1
Seoul	-2.0
Bangkok	-1.8
Kuala Lumpur	-1.7
Shenzhen	-1.5
Hong Kong	-1.1
Singapore	-1.0
Sydney	-1.0

turner to post profits last year.

HONG KONG finished easier, although light bargain hunting had brought stocks well off their lows. The Hang Seng index was finally 92.30 down at 8,126.85, having recovered from a 210-point loss seen shortly after the opening.

Property shares were in

demand in anticipation that the local property market would recover after Hang Seng Bank's relaxation of mortgage limits on luxury flats. Henderson Land rose 80 cents to HK\$41.90 and Citic Pacific 10 cents to HK\$18.05.

HSCB recorded HK\$2 to HK\$79.76 and Hang Seng Bank slipped 80 cents to HK\$45.80 ahead of results to be released after the market closed.

SINGAPORE picked up from an early 4.4 per cent fall as the mood calmed in later trading, and the Straits Times Industrial index ended a net 20.42 off at 2,094.10.

Malaysian shares traded over the counter suffered a worse day, with the UOB OTC index down 30.15 at 1,078.92.

MANILA fell through the 2,500 support level in a market

already unsettled by a weak local currency and high interest rates. The composite index shed 103.46 to 2,494.45, in turnover of 1.2bn pesos.

KUALA LUMPUR was broadly lower in sympathy with regional bourses and ahead of a Moslem festival which will close the market from tomorrow until Sunday. The composite index declined 16.66 to 953.79.

SYDNEY retreated in light turnover estimated at A\$314m. The All Ordinaries index closed 17.9 down at 1,893.3, off a session's low of 1,886.8. The futures contract lost 24 at 1,911 after reaching 1,898.

The banking sector picked up from early losses, NAB finishing 6 cents off at A\$10.80.

BANGKOK recovered some ground in the afternoon as

We showed record earnings \$ in 1991.

And in 1992.

And in 1993.

And in 1994.

So, how's your money doing?

At SBC, record-breaking growth is nothing new. We also set the record among Bell companies for total shareholder return—74.1 percent since divestiture in 1984. And have since grown into one of the world's leading telecommunications concerns, with annual revenues in excess of \$11 billion.

SBC is the ticker symbol for SBC Communications Inc. on the New York Stock Exchange. And as most industry watchers already know, it's a name that has long stood for dynamic growth and solid investment opportunities.

So, how is your money doing?

Fourth Quarter 1994 Results

	1994 (unaudited)	1993	% Chg.
Revenues (\$000,000)	\$3,207.8	\$2,998.1	10.7
Net Income (\$000,000)	\$424.7	\$394.9	10.1
Earnings per Share	\$0.71	\$0.64	10.9
Assets (\$000,000)	\$20,005.3	\$18,307.5	9.3
Accrued Liabilities (\$000)	13,912	13,145	5.8
Capital Customers (\$000)	2,570	2,519	1.9



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